PRINCIPLES AND PRACTICE OF MANAGEMENT

INTERMEDIATE

STUDY NOTES*

**THE INSTITUTE OF
COST AND WORKS ACCOUNTANTS OF INDIA**

COACHING DIRECTORATE

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SYLLABUS

GROUP—II

PAPER-4 : PRINCIPLES AND PRACTICE OF MANAGEMENT

(100 Marks—Three Hours)

OBJECTIVE : To provide a basic understanding of the processes of management so that the relevance of cost and management accounting concepts and techniques to be developed later, can be better appreciated.

LEVEL OF KNOWLEDGE : Basic understanding.

1. *The cancept of management* : The process of management, Planning, Organising, Staffing, Directing and Controlling.

Determining the nature of work of a manager in terms of the processes of management

Universality of the principles of management—Evolution of Management thoughts—Recent trends in management thoughts—Management as a profession.

2. *Planning* : Goals, objectives, standards, targets, quotas, dead lines ; standing plans, policies, procedures and methods : Projects—special programmes and scheduling ; Hierarchy of planning—group or sectional, departmental of divisional, functional and company-wise planning ; Planning process—statement of problem, determination of alternatives, collection of facts, analysis, decision on action and execution.

3 *Organising* : Nature of internal organisation of a business enterprise ; Formal and informal organisation. Principles of organisation ; Grouping of activities ; (a) typical pattern of grouping by products, services, location, customers, processes, functions and time (b) criteria for grouping activities—specialisation, control, co-ordination, attention, economy, etc. Creating a net work of relationship through determining the authority and responsibility of the positions created : (i) concept of authority ; delegation, chain of command, authority and responsibility, decentralisation span of control ; (ii) levels of authority—staff, kinds of staff, nature of staff work ; advisory services and control, line and staff relations ; (iii) Internal relations—Committees and their roles.

4. *Staffing* : Staffing function, selection, man-power needs, man-power position, training, rating and evaluation, man-power development, human resources appraisal and accounting.

5. *Directing* : Nature of directing ; Motivation ; Bases of Motivation ; fear, money, satisfaction—Importance of behaviour, individual needs, needs of organisation ; factors influencing performance ; work environment, communication group dynamics—formal and informal.

Communication ; Nature, media and channels, systems, barriers ; aids structured and unstructured.

Leadarship : Nature, styles, (auocratic, consultative, Free) attitudes, leader behaviour, leader effectiveness, situational leadership models.

6. *Control* : Concept of Managerial control ; control of personnel performance ; areas of performance control product, finance, morale ; Process of control ; standards, appraisal and corrective actions : control aids ; good organisation structures ; sanity of objectives and policies ; methods, procedures budget etc.

7. *Management of public undertakings*—Principles and applications.

CONTENTS

Suggested *Text Books*

1. "Principles and Practice of Management", by Shyamal Banerjee. (Oxford IBH Publishing Co.)
2. "Essentials of Management", by Harold Koontz and Cynil O'Donnell. (Tata McGraw-Hill Publishing Co. Ltd.)

Suggested *Reference Books* :

1. "The Practice of Management", by Peter F. Drucker.
2. "Management : Tasks, Responsibilities, Practices", by Peter F. Drucker (Allied Publishers Private Ltd.)

GENERAL

Meaning of 'Management'

The term management conveys different meanings according to the context in which it is used Let us take this sentence, for example ; '*Management*'[1], of Supreme Industries Ltd , believes that good *management*[2] is an important factor in the prosperity of every business ; they have, therefore, decided that study of *management*[3] and particularly of relations between *management*[4] and labour, should be encouraged among all members of the *management*[5].

In this sentence, the term management conveys five different meanings, viz :

(1) It means the top management,

(2) It means the process of management,

(3) It means a body of knowledge,

(4) It means managers at different levels,

(5) It means all personnel having managerial responsibility.

In a broad way, management may be viewed from these angles :

(a) It is a dynamic system, but not a closed system ;

(b It is a technique through which the purposes and objectives of a particular human group are determined, clarified, controlled and effected ;

(c) It is a continuous, circular process and, more particularly, a social process ;

(d) It is also a philosophy comprising of attitudes and beliefs, based on ethical framework of managers and workers, industrial setting of firms and institutional background, including variable forces of environment, society and government.

Furthermore, it is an economic resource by itself ; managerial skill and innovation can fruitfully invest capital, and economise use of men and machinery. Need of good and effective managers is, therefore, pressing, urgent and great in developing countries, which have not only limited resources, but also growing wants. It has been aptly said that "management is one of the most important factors in stimulating forces of economic growth".

Management : Some definitions :

One widely quoted, brief definition of management is that it is "the art of getting things done through others". It is, however, rather simplistic and not sufficiently broad based ; its use is, therefore, not recommended.

Other examples are :

According to Henri Fayol,

"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control".

According to American Society of Mechanical Engineers.

"Management is the art and science of preparing, organising and directing human effort applied to control the forces and utilise the materials of nature for the benefit of man".

According to E. F. L. Brech.

"Management is a social process entailing responsibility for the effective (or efficient) planning and regulation of the operations of an enterprise"

According to Lawrence Appley,

"Management is the development of people and not direction of things" ; also "guiding human and physical resources into a dynamic, hard-hitting organisation unit that attains its objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering the service".

According to Professor Harold Koontz :

'Management is the art of getting things done through and with people, in formally organised groups. It is the art of creating an environment in which people can perform as individuals, and yet co-operate towards attainment of group goals. It is the art of removing road blocks to such performance, a way of optimising efficiency in reaching goals".

Functional Elements of Management

In concrete terms, management is task and consists of functions ; it may be regarded as consisting of the following elements :

1) There has to be a horizon, an ambit within which a management must perform ;
2) Decision making is the core, which also permeates all levels of management ;
3) There is universal need for planning – planning a decision, planning a system, a Programme, its implementation etc. ; planning means casting a searching look ahead ;
4) There will be an organisation which, when crystallised, will carve out a shape and form for the management ;
5) There must be proper staff, both qualitative and quantitative, for a management team ;
6) A management must provide necessary leadership, direction and motivation, as in any other effective team-work ;

7) A network of fast and intelligible communication is as essential as management, as life-blood to a living organism ;

8 There is need for all-pervasive co-ordination throughout the organisation ;

9) A management must know whether or not everything is proceeding as planned : this is evaluation, monitoring and control.

10) A management, which does not wish to decline, will emphasise constantly on innovation which, in simple terms, is looking beyond the horizon. Prof. Schumpeter gives innovation a pride of place in competitive management success, equating it as the source of differential profit earned by competing enterprises.

It is also useful to note that there are certain aspects in common amongst all managerial functions, viz. :

a) Goals which a manager must set to which he must proceed, with proper leadership and direction ;

b) A set of people, with and through whom he acts and whom he motivates ;

c) Limited, but usually flexible, resources over which he presides;

d) Constraints, known, unknown, foreseen or unforeseen, which he must overcome. The speed and skill with which a manager handles the above, determines the degree of his managerial competence.

The concept of universality of management will be clear from the foregoing.

General Nature of Management Process : Management is a *Continuous* process. It means that a manager is, at any time, involved in performing one or the other elements of the management process. Although the management process is analysed into several elements, it does not mean that a manager must perform these in a definite chronological sequence. Secondly, management is a *Circular* process and not a linear process. It means that the preceeding element, for example, planning, not only influences organising it, in turn, is influenced by organising, and so on with all other elements of the process. Thirdly, management is a *Social* process, in the sense that it affects society, that is, persons working within the organisation, as well as different social groups outside the organisation, and the society as a whole. It implies that managers should remember, while making decisions, that their actions will have social consequences, at times, of far reaching importance.

Management is an Art, a Science and a Profession.

Art refers to an inborn skill and the practical way of doing specific things ; examples are music, dancing, painting etc. or a carpenter sawing wood. Empiricists and early practitioners claimed that management is the art and practice of getting things done, realising a goal through men and limited material resources, in dynamic situations.

Science, on the other hand, means an organised and systematised body of knowledge, based on research and observation, capable of universal application, under given conditions, and its structural elements have a cause-and-effect relationship Examples are physics, mathematics, chemistry etc., Since the second World War, physicists, mathematicians, engineers, statisticians, accountants etc have been studying problems of industry and providing quantitative bases for correct managerial decisions ; thus ; a status of a science has been claimed for management.

There are elements of truth in both these approaches, but neither appears to be wholly true.

Management is only a Social Science : It must, however, be pointed out that inspite of this controversy, the claim of management to be called a science cannot be fully accepted for reasons such as the following :

(1) Its laws cannot be stated in precise quantitative terms ; at best they are only statements of tendencies ;

(2) It cannot predict with certainty future behaviour ;

(3) It cannot always demonstrate validity of its principle with the help of experiments.

It is true that these limitations are essentially due to the f ct that management like other social sciences, deals with living, complex men in dynamic environment and situations. At the present stage of development' it is not possible for management scientists to explain clearly why and how a human being behaves in a particular way, and to say with confidence that he will behave in the same way in future.

It is because of the obvious limitations that management cannot claim to have the status of Natural Sciences. However, with the increasing use of the methods of these sciences, it can claim to be scientific in its approach and therefore may be regarded as a Social Science, like Economics and Sociology.

Art and Science in Management : It is now generally recognised that a manager must have a thorough knowledge of the management theory ; this knowledge helps him greatly in understanding his problem and in the developing a right solution ; for example, a medical practitioner with his theoretical knowledge of anatomy, physiology and chemistry, is in a far better position, than a quack, to diagonise the illness of his patients But his success in curing his patients depends largely on the skill with which he makes use of his theoretical knowledge Similarly, success not otherwise of a practising manager, would depend, to a large extent, on the skill with which he can use his theoretical knowledge In short, management, at present, is and art, though there is now a large body of theoretical and systematised knowledge available to guide practising managers and may thus be said to contain an element of science ; in addition, practising managers generally follow scientific methods in studying their problems and developing solutions.

Managment as a Profession :

With the gradual development of theory and practice of management, claim has lately been made of its being recognised as a profession—of skilled managers, e g. of general practioners competent in management functions as a whole and of specialists in some special branches like accounting, personnel, engineering etc.

It is, therefore, necessary first to lay down the criteria which an occupation must satisfy to be called a profession and then examine the claims of management for the status of a profession Commonly recognised criteria include :

(1) There must be a sufficiently large body of theoretical knowledge, that is core principles, techniques and skills.

(2) There should be a satisfactory arrangements for imparting theoretical knowledge and practical experience to those desiring to enter the profession.

(3) There must be a national body competent to prescribe qualification for admission to new entrants, to conduct examinations, award diplomas or degrees etc.

(4) This body should have a suitable ethical code of conduct for its members and must be in a position to de-recognise and disqualify those who violate any provisions. The essence of this code of conduct is that a member of a profession must render competent

and honest service first and then claim fees for services rendered. It also implies that in a situation of conflict, of interests, that is, conflict between narrow, selfish gain and professional loyalty or integrity, the member, at all times, shall give priority to the latter

Furthermore, the profession of management rests on a few key factors :

(a) knowledge of nature of management and its basic processes ;
(b) identification of the skills required to apply those basic processes ;
(c) oecognition that these are tools available for application of these skills
(d) determination of the qualifications required by an individual manager ;
(e) specific continuing programmes of management development.

When the claims are considered against this background, it would appear that this, at present, is a developing profession.

As an activity, management existed long ago ; Pyramids of Egypt, ancient architectures of Greece and Rome, Ellora and Ajanta caves of India are monuments of managerial skill. Presumably, however, there was then no scientific basis for management much less an organised body of knowledge to be passed on from man to man.

The profession of management has been slow to come up in developing countries

(a) ownership has not yet been entirely diffused and many industries are still owned by families who manage through their members. management by inheritance seems to be the rule in such cases.
(b) Economy is mixed and there is absence of keen competetion, Efficient management is not regarded as an urgent necessity.
(c) prevalence of corruption, as a widespread phenomenon.
(d) political interference, at many levels.

Administration and Management :

Henri Fayol introduced the term administration in his book 'Industrial and General Administration', but he did not distinguish it from management. Later, however, E.F.L. Brech, the British author of 'The Principles and Practice of Management', stated that managment is concerned with decision-making while administration is concerned with the implementation of decisions made by the management.

Oliver Sheldom in his book, 'Philosophy of Management', gave exactly opposite meaning to the two terms ; according to him, 'Administration is the function in industry concerned with determination of corporate policy, coordination of finance, production and distribution, settlement of the

compass of the organisation, and the ultimate control of the executive', and Management proper is the function 'Concerned in the execution of policy within the limits set by the administration, and the employment of the organisation for the particular objects set before it'.

Peter Drucker sought to make the distinction between the two on an entirely different basis. Accoling to him, management is a specific organ of business enterprises ; it must, therefore, be seen only in the context of those institutions which supply economic goods or services, irrespective of whether they are in the private or public sector The term administration should be used in the context of the institutions like the Police Department, the Central Board of Direct Taxes, Religious Trusts, Charitable Hospitals etc. which do not supply economic goods.

Whatever justification might have been there in the past for making such a distinction, there does not seem to be any logical reason for it, today. What is really involved in both is efficient use of scarce resources for the achievement of a given goal. In fact, since 1950's, a large body of writers on management have been using the term management to mean both policy making as well as implementing policies.

And in any case, distinction between the scope of the two terms is not qualitative ; it lies in the emphasis. In one case (administration) this tends to be long range, wider diffused and comprehensive, in the other (management), it is more time bound, limited, concrete and economically viable.

II

FUNCTIONS OF MANAGEMENT

Decision-making : A key function of Top Management is to take strategic decisions, which alone can initiate action by managers at lower levels Another important function is to see that the decisions taken are implemented for, without it, the decisions will remain only as good intentions on paper The success of an organisation and that of its managers, depends, primarily, on correctness and timeliness of its decisions, and, hence the importance of scientific decision making.

Basis of Decisioning :

Bases, available to a manager, for decisioning, are broadly as follows :

(a) To consult the past Experience ;

(b) To try out and weigh alternatives- Experiments ;

(c) To analyse and simulate—Model

In fact, a manager may, in a given situation, take recourse to one or more of the foregoing, before coming to a final decision.

Decisioning Approaches

Any decision, in the last analysis, is a choice and all approaches to decisioning aim at improving the quality of that choice. Amongst such analytical approaches, may be mentioned the followings :

(a) Marginal analysis (b) Differental analysis

(c) Cost benefit analysis (d) Limiting or key factor analysis.

(Further details may, if necessary, be looked up from a text book).

Decisioning techniques

Decisioning techniques leans heavily on Operations Research (OR) which, is essence, is the application of mathematics and laws of physical science into the sphere of business management ; decisioning techniques include, amongst others, the followings :

(i) Break-even analysis ; (ii) Business forecasting ;

(iii) Inventory Optimization—Economic order Quantity ;

(iv) Stock control - Economic hot size ;

(v) Simulation ; (vi) Waiting Line (Queueing) theory ;

(vii) Linear programming ; (viii) Sensitivity analysis ;

(ix) Game theory ; (x) Decision Tree ;

(xi) Programme Evaluation and Review Technique ("PERT") ;

(xii) Critical Path Method ("CPM")

("PERT" and "CPM" will be dealt with, at some length, in Study Note 7 ; further details with regard to the others may, if necessary, be looked up from a text book).

Traditional Method of Decision Making ; Industrialists and managers in the past followed the method of *Symptomatic Decision making* which was popular among the medical parctitioners. Medical practitioners had learnt from experience that every disease had its symptoms and belived that the symptoms do not lie Later developments and experience revealed, however that external symptoms were not always reliable They, therefore, began to follow Analytical Method. viz: by using X Ray photographs, Cardiograms, Blood and Urine tests etc to diagonise a disease

If symptoms cannot always be relied upon in medicine, they are stil less reliable in business, where different problems may produce the same set of symptoms, and where the same problem may manifest itself in an infinite variety of ways. It has, thehefore, to be kept in view that symptoms may and often do lie For example, the symptom may be a clash of personalities but the real problem may be a defective organisation structure ; or the symptom may be *high cost of production,* but the real problem may be poor engineering design.

Scientific Method of Decision making : It was Peter Drucker, who suggested in his famous book, 'The Practice of Management', the scientific method of decision making. According to him, this consists of the following steps : 1) Defining the Problem, 2) Analysing the Problem and Collecting Data, 3) Developing Alternative Solutions, 4) Selecting the Best Solution, 5) Converting the Decision into Action, and 6) Arranging for Feed back.

Defining the Problem : Problems in business do not always present themselves as cases on which decisions have to be taken. It is, therefore, necessary to start with defining the problem. This requires discovery of the critical factor in the situation, that is that element in the situation which has to be changed before anything else can be changed or any other action can be taken. As it is not always easy to locate the critical factor by straight analysis, two approaches are recommended to isolate the critical factor ; one is to assume that nothing will change, and then ask the question as to what will happen if no action is taken ; the other approach is to look back and ask as to what could have been done or was left undone at the time when the present problem first appeared, which ould have materially altered the present situation.

A correct and a complete definition of the problem is of u nost importance because a wrong or incomplete solution will mean waste of valuable resources-money and time and yet, the real problem will remain unsolved.

Analyzing the Problem : **The next step is to classify it nd to collect relevant facts about it. It is necessary to classify a problem in order to know who must take decision, who must be consulted making it, and**

who must be informed about it. This requires that the following four considerations be kept in mind : (1) The time span for which the decision commits the organisation to the course of action decided upon ; (2) The scope of its impact-whether it will affect the entire organisation or a department or an individual ; (3) Number of qualitative factors involved ; and (4) Uniqueness or recurring nature of the problem.

Collection of Data : It is only when the problem has been defined and classified that one knows what relevant information to collect Collection of data involves both time and money and, often, a manager may be called upon to take a decision without all the necessary data. He must, therefore, know what information is lacking and the degree of risk involved in taking a decision without that information.

Developing Alternative Solutions : It is imperative that a manager should develop a minimum of three alternative solutions to a problem he is called upon to decide. This is necessary because the person suggesting only one solution may do so in his own personal or narrow departmental interest. Secondly, one solution, however perfect it may be at the time it is suggested, may be found to be inadequate later with circumstances changing.

Selecting the Best Solution : In selecting the best solution out of a number of available alternatives, a manager should apply the following criteria : 1) Degree of Risk involved, 2) Economy of Effort, 3) Suitability of Timing, and 4) Limitations of Resources, especially human resources available.

Converting the Decision into Action : A decision of a manager becames effective only through the ction taken by his subordinates. To secure the right action from his subordinates, a manager has to motivate them This requires that they should feel that it is "their decision" that they are implementing. This may be achieved by given them a chance to develop alternative solutions, and by givnig them some freedom in implementing the final decisions

A manager must build into his decision, a yardstick or a criterion to measure performance This alone would make it possible for the sub-ordinates to evaluate their actions.

Arranging for Feed-back : The decision maker must arrange to secure feed back information for continuously assessing the actual development against the expected results This alone will enable him to modify his earlier decision if the actual result falls short of expectations.

Limitation of Scientific Decision Making : Drucker's advocacy of scientific, rational decision making made a strong impact on practising

managers. Development of such quantitative (O. R) techniques, as A B C analysis, Critical Path Method, Programme Evaluation and Review Technique, Linear Programming etc , in solving many managerial problems, reinforced their belief that managerial decision making can be scientific, that is, rational and objective.

Prof Herbert Simon, a well-known economists, and winner of the Nobel Prize for Economics for 1978, was the first to point out that it is just not possible to be fully rational and objective in making decision in real life According to him, the objective rationality assumed in scientific decision making, is not possible for reasons, such as the following :

(1) Rational decision making requires a choice among many alternatives : in real life, however, only a few of all the possible alternatives come to an average mind at time.

(2) It also requires a complete knowledge of all consequences of each choice ; in real life knowledge of consequences is only fragmentary and incomplete

(3) Consequences of a decision occur in future which is uncertain, and so the decision maker is forced to use his imagination, his subjective judgement and his personal values : he, therefore, cannot be entirely rational and objective.

Prof Simon, therefore, suggested the Principle of Bounded Rationality, in place of complete rationality, in decision Making According to him, a decision maker in real life cannot hope to maximise his benefits and this also may not be always necessary ; all that he can hope to do is to see that the decision is *Satisfying*, that it best satisfies and meets his requirements.

Group Decision Making : Traditionally, owner-managers had regarded decision making as their exclusive prerogative With the emergence of the public limited companies, major decisions regarding objectives and policies began to be taken by directors as a group. In course of time, as large organisations began to face complex problems, chief executives began to set up committee of executives and experts to tackle those problems. To day, important operating decisions are taken mostly by groups and rarely by individuals.

Technique of Brain-Storming : Creativity and innovation are great assets in decision making. In order to encourage these in a group, psychologists have developed the technique of Brain-Storming. This technique involves bringing together a group of persons with a problem and requesting them to suggest whatever solutions that come to their minds immediately without regard as to whether the solutions are practicable or not In

fact, it is a strict rule that, at this stage, no doubts are expressed or criticism made of any idea that is put forward by a group member. The reason is that creative ideas are most likely to be stifled, if a group member is afraid that other members are likely to laugh at his idea or ridicule it as being impracticable. Experiments have shown that, with this rule, an hour's brain-storming session has produced a large number of new ideas, some of which are apparently crazy and not practicable immediately ; however, often original and practicable solutions have emerged out of a combination of seemingly impracticable ideas.

Gordon technique

Developed by William Gordon, this technique is a variation of brain storming, the objective, however, of a Gordon session being different from brainstorming session. In a brainstorming session, a multiplicity of ideas is sought ; in the Gordon method, only one radically new idea is required. The two approaches are different but one advantage of the Gordon method is that the group is more unconstrained ; the principal weakness of the Gordon method is that much of its success depends on the Leader.

Management Process for implementing Decisions :

Having made a sound decision, the next function of management is to implement that decision, e g. to tran late it into action and to ensure that this is correctly accomplished. All the functional elements, indicated earliers, will come into full and systematic play, and these will be dealt with, one by one, in fuller details, in the Study Notes that follow.

EVOLUTION OF MANAGEMENT THOUGHT

Management in Ancient Civilizations Management has become today, the central activity of our age and a powerful force for better utilization of our productive resources and for raising the standard of living of the masses. There is also a body of laws and principles of management, built up during the last sixty years also, to guide practising managers. This is likely to create an impression that management is an invention of the twentieth century and there was nothing like it in the past. This, however, is not true There is now sufficient evidence to show that some of the present-day management concepts and practices were known to the people in ancient civilizations. A brief account is given below to prove this.

Sumerian Civilization : The earliest written documents in the world found in the Sumerian Civilization of 5000 years ago provide evidence of managerial control practices The Sumerian temple priests were managing tremendous wealth of their religious organisations and had to develop their own system of managerial control.

Egyptian Civilization : The world famous pyramids of ~~ancient~~ Egypt, built from 5000 years BC. to 525 B. C., stand as a mute testimony to the organizational and managerial abilities of the Egyptians. One of their great pyramids (of Cheop) covers thirteen acres, and contains 23 lakhs of stone blocks each weighing two tons and a half, and required a labour force of one lakh, for twenty years, to build it This massive task obviously involved a great deal of planning, organising and controlling In addition to their architecture, many instances are also found in Egyptian literature of management thought, frequently posed as advice from a father to a son.

Hebrew Civilization : The Hebrews, better known as the Jew, who greatly influenced civilization, were also aware of and practised some of the well-known management principles ; for example, one of their famous prophets Moses successfully organised and carried out exodus of many thousands of his followers from the bondage of the Egyptians, to the safety of their own land, now known as Israel. It is also on record that Moses' father-in-law had advised him to follow the principle of delegation in the administration of his kingdom.

Chinese Civilization : It is generally acknowledged that the Chinese were the first to recognize the need for methodical means of selection of employees, to create the world's first Civil Service System for their empire. The ancient records of Mencius and Chou (1100 B C. to about 500 B C.) indicate that the Chinese were aware of the principles bearing on planning

organising. directing and controlling. The following two, out of many, of their quotations, will bear this out :

> "The general who wins a battle makes many calculations in his mind (planning) before the battle is fought".
>
> "If words of command are not clear and distinct and are not thoroughly understood, it is the general who is to be blamed". (clear orders, instructions).

Greek Civilization : It was the Greeks (5th century B. C.) who were the first to develop a democratic government with all its managerial implications. It is also in the Greek Civilization that we find the origin of Scientific Management. Plato, the famous philosopher was the first to propound the theory of specialization. Again, it was Socrates who proved, by his famous method of dialogue, that management is a separate and distinct art, and that it is universally applicable.

Indian Civilization : The Arthashastra of Kautilya (about 321 B C.) discusses, the political, Social and economic management of the State. In his treatise, Kautilya covers almost every aspect of the theory of government. He discusses the duties of the king and his ministers, the council meetings, departments of the government, diplomats etc. In addition, he deals with the organisation and management of trade and commerce, laws and law-courts, municipal government, social customs, taxation and revenues, agriculture mines and factories, markets and slaughter houses, census operations, and so on In short, he attempted to analyse the practices that had brought political successes in the past, and to deduce there from what principles might be followed for political success in future.

Roman Civilization : It is generally acknowledged that it was their superior managerial talents which enabled the Romans to conquer and to rule for many years the first largest empire in the world, stretching from Syria in the East to the British Isles in the West They used the principles of the Scalar Chain, and the Unity of Command in their organisations and in the administration of their government and the army.

This brief account of the development of management thought among the ancient civilizations, will indicate that during this long period management was perhaps a matter of trial and error, with no definite theories and no exchange of ideas The management principles which were applied, were born out of necessity and were discovered over and over again by numerous individuals as they went about attempting to achieve their objectives.

Management Practices during the period from 1700 A D. to 1850 A D.

From the beginning of 1700. A. D. a series of events had a real impact on managerial practices, among the more important of these events

where the growth of cities, the application of the principle of specialisation, the extended use of the printing press and the beginning of the Industrial Revolution

During the early years of the Industrial Revolution in England (1700 A D.—1785 A D.) a new generation of managers with their own concepts and techniques of management had emerged. They introduced two most important innovations in the basic organisation of production In the early factory system, where workers were brought together to work under one roof, with the materials and tools provided by the factory owners, management was characterized by strict military organisation and control, mainly to prevent theft of valuable and scarce raw materials. Production and quality control were in a primitive state. Financial control, however, was better developed as the merchant owners had adopted the best accounting and control techniques from their counterparts in Italy.

As early as 1739 A. D , there was clear evidence of location planning by the proprietors of the Carron Ironworks in scotland where 'everything, even the site, was planned with a view to greatest efficiencies of production and transportation in the smelting and casting of iron'.

Adam Smith, the father of Economics, recognizing the need for Pay-back computations, has outlined a method for their application in machine acquisition and replacement, in his book, 'An Enquiry into the Nature and Causes of Wealth of Nations', published in 1793 A D

The management function of direction had begun to assume some importance as 'the sinking of capital in costly machinery made it necessary in the interest of employers to work that machinery and continuously as possible'. This necessarily required effective direction and supervision of labour force.

One of the first complete applications of systematic management to manufacturing was seen in England in 1800 A.D at the Soho Engineering Foundry of Baulton, Walt ond Company, manufacturing steam engines. In this plant, we find concrete evidence of "market research and forecasting, planned site location, machine layout study, established production standards, production planning, standardized components, cost accounting and cost control, employee training, incentives and employee welfare programme". It was recorded, in 1930, on the systems of this foundry that there were almost nothing in the details of the most progressive factory, practice of the day, that Boulton and his partner had not anticipated.

In contrast to the prevailing and almost universal managenent practice of getting maximum production from machines, and with complete disregard for the interest and welfare of workers, there was one manager, Robert

Owen, in Lanark in Scotland whose textiles will stand as a living proof that the typical squalor and degradation of industrial life, and ruthless exploitation of workers were not inevitable ; and the crowning glory of Owen's experiment was that his mill was making good profits He was thus demonstrating that industrialization need not be built on cheap and brutally abused labour. He firmly maintained that "human machine can be easily trained and directed to procure a large increase in pecuniary gain Money spent on employees might give 50 to 100 percent return as against 15 per cent return on machinery". Unfortunately. Owen stood as a glorious exception and without any followers during his life time, but he, with his work on human and behavioural aspects, was clearly a forerunner of Henry Fayol and Mary Follett.

Prelude to Scientific Management (1850 A,D.– 1900 A D.)

Emergence of the Joint-stock Company as a form of industrial organization brought about the seperation between ownership and management. It gave rise to the need for a separate class of persons known as managers, who were different from suppliers of capital. It was in this from that large scale enterprise for the construction of railways were started in America during this period Managers of these large organisations realised that their management presented completely new problems from those faced in small enterprises As it to answer these problems, Henry Poor, the editor of the American Railroad Journal (1849 A D.– 1862 A D), appeared on the scene to establish basic management principles for arge industrial organisations. He coined the phrase "the Science of Management".

He reasoned that railroad managers needed to be guided by only three principles . Organisation, Communication and Information. He suggested that a railroad organisation should be so designed as to ensure that each man's time was fully utilized and the railway equipment was kept in service as fully as possible By communication he meant a reporting system which would keep management fully informed of the operations, and described information principle as analysing information to improve operations. Decentralisation movement in American business was presumably started by Poor

Daniel C Mc Callum, General Superintendent of Eric Railway from 1854 A D. to 1957 A D. and subsequent Director of all U.S. Railroads was the first to make practical use of Poor's recommendations. In the latter capacity, he successfully organised and managed to despatch 160 cars a day over 360 miles of a single track to supply General Sherman's Atlanta campaign employing 100,000 men and 60,000 animals.

Like the railways. industrial enterprises were growing in size, and with the emergence of new markets, they soon grew to match the railways in complexity. During the last three decades of the nineteenth century, managers of these fast growing enterprises began to realise that they too had problems in management and this realisation ushered in the beginning of the movement for scientific management Engineers and managers began discussing their problems and reading papers before associations, such as the American Society of Mechanical Engineers Among those who gave an impetus to the scientific management movements, the names of Henry R. Towne, Henry Metcalf and Frederic Halsey are well-known Towne emphasised that management was as important as engineering

Emergence of Scientific Management : The last phase in the evolution of management was brought about by the operation of two forces : One was the efforts of practising managers to establish standard practic s, and the other was the efforts of scientists to demonstrate the superiority of the application of the scientific method of observation. hypothesis, verification through experiment, and generalisation, to problems of industry. The first scientist to attempt this was Charles Babbage, a British mathematician. Having studied industry from outside and having observed workshops and factories in other countries of Europe, he wrote a book, 'On the Economy of Machinery and Manufacturer' ; in it, he dealt with the use of machines and organisation of human beings for that purpose. His writings anticipated many of the important formulations of F. W. Taylor.

F, W. Taylor, Father of Scientific Management ; It was, however, left to F. W. Taylor, an engineer by profession, to synthesize and present as a reasonably coherent whole, the ideas which had been germinating and gathering force in the United States and Great Britain during the last three decades of the nineteenth century. He gave, to a disconcerted series of initiatives and experiments, a philosophy and a title He was the first to assert that management was quite distinct and different from the technology of any industry, and that it was very little dependent upon personality, beyond the possession of adequate intelligence, an orderly habit of mind, and an ability to see a subject as a whole while keeping track of the parts.

Starting his career as an apprentice to a machinist in a work-shop, Taylor, joined the Midvale Steel Company as a machinist and soon became a shop-clerk. Within the next six years, he passed through different managerial positions and finally became the Chief Mechanical Engineer in the Bethelham Steel Factory, one of the biggest engineering factories of that time. During this period, his work on 'Hig-Speed Steel', and his invention of the 'Side Rule for Metal-cutting' had established his reputation as a

technical engineer of genius and as an inventor. After having retired in 1901 A.D , he presented his ideas about scientific management in the form of two books, 'Shop Management' in 1903 A. D., and 'Principles of Scientific Management' in 1911 A.D. He also spent the rest of his life in addressing meetings and advising managers to spread his ideas of Scientific Management. It should be noted, however, that Taylor's 'Scientific Management' is not the same as Management Science of today.

Salient Features of Taylor's Scientific Management ; Having worked in a number of factories and having carefully observed what was going on, Taylor had come to the conclusion that the main cause of the general inefficiency and waste in factories was ignorance on the part of both men and management. The methocs of both sides were traditional and no attempts were made to find out facts, and to acquire precise and accurate knowledge about the whole business. He, therefore, went about observing, collecting facts, making experiments, formulation generalisations and demonstrating their applications to the problems of the shop floor. All this, he logically presented in the form of his theory of Scientific Management.

1 *Establishment of a Separate Department for Production Planning.*

Taylor had observed that the shop Foreman were overlurdened with the responsibility of planning anc execution of plans and were unable of ensure full utilisation of men and machines. Frequent stoppage of production was a common feature in all factories and thie resulted in tremendous waste. He, therefore, recommended the setting up of a Production Planning Department which would relieve the foreman of that responsibility and enable him to concentrate on supervision of production.

2 *Introduction of the Principle of Specialisation :*

Taylor recommended that work in Planning Deparment should be divided into four activities and each should be entrusted to a different individual, as follows : 1) Route Clerk 2) Instruction Card Clerk, 3) Time and Cost Clerk and 4) Inspector.

Similarly, he recommended a functional organisation for the work-shop and recommended the appointment of four specialists, viz., Gang Boss, Speed Boss, Repair Boss, and Shop Displinarian.

3. *Systematic Selection and Training of Workers :*

Taylor also demonstrated how the right man, selected for the job of shovelling, and trained in the best method of performing that job, could give a consistently much higher rate of output.

4 *Use of the Technique of Time Study*

Taylor himself developed the technique of time study with the help of a Stop-Watch for calculating Standard Time and Standard Out put for each job. This helped the management to fix fair wages for a fair output and thereby eliminate most of the wage disputes.

5. *Use of the Technique of Motion Study*

Taylor also suggested the determination of the best method of performing each job, based on eliminating unnecessary motions and thereby reducing fatigue.

6. *Introduction of the Differential Piece Work Plan :*

Taylor believed that a more efficient worker should be paid at a higher rate, and a less efficient worker at a lower rate of wages For this he suggested the system of differential piece work wages i. e wages according to output and recommended combining it with a higher rate of reward to the more efficient worker and a lower rate for the less efficient one.

7. *Standardisation of Tools, Equipment etc.*

Taylor knew that if the management wanted workers to accept standard piece rates, it must provide standard tools and equipments to all workers.

Taylor's Philosophy of Scientific Management : The above techniques developed and recommended by Taylor for improving productive efficiency of workers, came to be looked upon by industrialists and factory managers as the essence of scientific management. Suspecting that these techniques could be used for selfish purpose e. g. of making more profits at the cost of workers and consumers, Taylor very emphatically asserted that, "scientific management is not a efficiency device, nor time study, nor motion study, nor it is a new system of figuring cost, nor a new system of paying workers. In its essence, it involves a complete mental revolution on the part of the worker and an equally complete revolution on the part of those on this side of management, namely, the foreman, the superintendent, and the directors. Without this mental revolution. scientific management does not exist", Taylor summed up the tenets of his philosophy as follows :

1) Science and not the Rule of Thumb ;
2) Harmony and not Discord ;
3) Co-operation and not Individualism ; and
4) Maximisation of output and not Restriction of output.

Criticism of Teylor's Scientific Management :

Taylor's techniques were enthusiastically adopted by factory managers, not only in the United States but also in Great Birtain and many European

Countries, and even in Soviet Russia. However, American workers and trade union leaders had vehemently opposed them and later social thinkers also criticized his Scientific Management. According to them, Taylor's theory was based inter alia, on two wrong and unfair assumptions e g about (1) the nature of a worker, and (2) significance of his work to a worker

According to Taylor, an average worker is like a machine whose efficiency depends solely upon his internal dealth and external conditions of work. Further, every worker works only for his own gain From this, he had concluded that a worker's efficiency can be increased by motion study and incentive wages. These assumptions were later disproved by the Hawthorne Studies conducted by Prof. Elton Mayo and his associates at the Western Electric Company, from 1924 to 1933.

Again, according to Taylor, a worker regarded his work solely as a source of income and nothing else He therefore, advocated minute division of labour which would increase the efficiency and output and would thus enable him to earn higher wages. Taylor, however, could not imagine the disastrous consequences of excessive division of labour for a worker. It meant repetitive and monotonous work and was bound to cause considerable discontent among the workers.

A third point of criticism is that his theory is narrow is scope, as it was applicable only to the activities of a factory or to the production department of a business organisation. The management of a modern business organisation, however, has to carry on many other equally important activities such as purchasing, selling, finance, accounting etc., and Taylor's techniques and tools have very little scope in the management of these activities.

Henri Fayol, Father of General Administration/Management.

Henri Fayol, a French mining engineer and a contemporary of Taylor, started his career as a junior engineer in a coal mining company in France in 1860 He was promoted to the post of Manager of collieries in 1866, and became its General Manager in 1888, when the financial position of the company was critical. He held this office with conspicuous ability for many years, and when he finally retired in 1918, the company was extremely prosperous, and had become one of the biggest coal companies in France. It was in 1915 that he published his book 'General and Industrial Administration, in which he presented his analysis of the Management Process. His work was published earlier, in 1908, in the Journal of Congress of Metallurgical society, for which Fayol's papers were prepared. Fayol isolated the activities common to all forms of management and administration ; these were :

1) Technical, 2) Commercial, 3) Financial, 4) Accounting, 5) Security. and 6) Administration. Further, he classified the administration group into six sub-groups, viz, 1) Forecasting, 2) Planning, 3) Organization, 4 Commanding, 5) Co-ordination, and 6) Control.

He then proceeded further and distinguished the following fourteen *Principles of Administration* : 1) Division of work and specialization 2) Authority and Responsibility, 3) Discipline, 4) Unity of Command, 5) Unity of Direction, 6) Subordination of Partial or Individual Interests to General Interest, 7) Fair Remuneration to Personnel, 8) Centralisation of Authority, 9 Scalar Chain, 10) Order, 11) Equity, 12) Stability of Tenure, 13) Initiative and 14) Esprited Corps, i,e. Co-operation and Fellow-feeling.

These are now widely accepted as the core of the bulk of management teaching, development and practice.

According to Fayol, administration or management is a continuous process and also a circular and not a linear process. This means that the management process not only influences the next element but is itself influenced by the latter, and it demands continuous attention of the manager.

Universality of Management Processes and Management Principles.

Henri Fayol claimed that the Management processes and principles are applicable not only to economic institutions whose fundamental responsibility is to make optimum utilisation of scarce resources abailable, but also to all non-economic or social organisations, like charitable hospitals, educational institutions, and even government departments ; in other words they have a universal validity. There is a large element of truth in this ; the reason is that both types-economic and non-economic face essentially the same problem, namely optimum utilisation of scarce resources. If, therefore, the management processes of forecasting, planning, organization, command, co ordination and control, and others, help and guide the managements of economic organisations in achieving their objectives, they should also be as helpful to the managements of the other organisations ; and they should also provide a sound foundation for management practices for the other institutions

Advocates of this universal approach also claim that theoretical knowledge about management and experience, are transferable from department to department, from enterprise, and even from country to country.

It is, however, necessary to add that though fundamental management concepts and principles possess universal validity, management practices are bound to vary according to political and socio-economic

environments in different countries. This is because management is by nature both science and an art and so its applications have neeessarily to be adopted to the conditions in which it is practised For example, one theory suggests that democratio style of supervision produces the best results in the long run This, however, does not mean that it should be adopted at all times and under all conditions ; under certain conditions, with a particular group of workers, and for certain kinds of jobs, it may not be found acceptable or may have to be suitably modified.

Training of Managers : Before Fayol, it was generally believed that persons had just to be born to be managers and one could not be trained to become a manager is one of the reasons being presumably that there were no theories or principles of management to be taught Fayol however, believed in the universal need for knowledge about management and had formulated his General Theory of Administration and had also stated his fourteen principles He, therefore, strongly advocated that persons desirous of entering managerial career should be taught accordingly. His advocacy proved very effective and the French Government set up the Institute of Administration in Paris in 1920 for management training.

Fayol and Taylor : a brief appraisal

"In Fayol's writings, there is a blending of humanism and social awareness with business efficiency. Fayol preaches the universality of management and, in this sense, is also one of the pioneers of the 'behavioural school' of management theory

Fayols' work and thought are relevant mostly to higher levels of management : Taylors' contribution was, mainly in improving and rationalising shop-level efficiency. Fayol was a management philosopher ; Taylor, a management engineer. Payol seeks to blend management principles with social aims and human propensities ; Taylar ignores human reactions in the formul tion of his efficiency techniques and performance norms.

In a sense, therefore, Fayol's and Taylor's work and writings are, to a large degree, complementary".

IV

POST "TAYLOR-FAYOL" TRENDS IN MANAGEMENT THOUGHT

After Taylor provided his techniques and tools for improving task efficiency based on the adoption of his "scientific" method and Fayol formulated his theories, students from different disciplines, such as psychology sociology, etc. come forward to study the subject of management and made theiir contributions. It is proposed to indicate briefly the salient contributions of the more important of these researchers. They are : 1) Frank and Lillian Gilbreth, 2) L. P. Alford, 3) Henry Gantt, 4 Hugo Munsterberg, 5) Elton Mayo, 6) Mary Follett, 7) Chester Barnard, 8) Abraham Maslow 9) Douglas Mc' Gregor, 10) Kurt Lewin, 11) Rensis Likert, 12) Chris Argyris, and 13) Peter Drucker.

Frank and Lillian Gilbreth.

Mr & Mrs. Gilbreth are famous for their technique of Motion Study for developing 'one best method' for doing any job in a factory. In the course of their studies, they invented and used many devices and techniques ; one was motion picture films to analyse and improve motion sequences ; the second was the micro-chronometer, a clock with a large sweeping hand capable of recording time upto 1/2000 of a minute or a "wink" third, with the use of these films, they constructed three-dimensional wire models of motions to permit better study and analysis ; fourth they refined hand motions into seventeen basic motions and called them "THERBLIGS"— Gilbreth spelt backward with the 'th' transposed.— Finally, they developed process charts and flow diagrams which are widely used today in method study.

L. P. Alford :

Alford formulated his principles of manufacturing management and his statement of some 50 "laws of management", may be conveniently classified into eight groups ; the orignial presentation was to American Society of Mechanical Engineers. These are—

Organisation and Leadership, Specialisation and Standardisation, Production planning and Control, Material Control and Handling, Product Inspection and Quality Control, Individual Productivity, Wages and Wage payment, Safety and Maintenance

The principles, by their nature, cannot obviously have the exactitude of physical laws but they undoubtedly help managers in their tasks.

Henry Gantt :

Gantt, like Taylor, emphasised the importance of principle in developing, maintaining and operating an industrial concern. He made fonr

important contributions ; one was the straight line chart to indicate and measure an activity by the amount of time required to perform it ; this is well known today as Gantt Chart used by production managers to compare actual with planned production. The second was the Task and Bonus Plan for remunerating workers ; this plan, unlike that of Taylor's Differential Piece work plan, guaranteed a minimum wage for output less than the standard, a bonus in addition to daily wages for standard output, and a reward for production above the standard. His third contribution was, "A Policy of Training Workers rether than Driving them". Finally, he pleaded that emphasis be placed on service rather than on profit.

Hugo Munsterberg :

Munsterberg started his research in the application of psychology in industry. Based on this research, he published his book 'Psychology and Industrial Efficiency' in which he made a stong plea for better understanding and application of psychology. He proposed inter alia, that the role of the psychologists, in industry, should be (1) to help find the man best fitted for a job, (2) determine the psychological conditions under which the best output per man could be achieved and (3) produce the influence on the human mind desired in the interest of management.

Elton Mayo :

Prof. Elton Mayo conducted experiments in the Department of Industrial Research at the Harvard University and presented his findings in his book, "Human Problems of an Industrial Civilisation", published in 1933 The Studies, at the Hawthorne Plant of Western Electric Company, under his guidance, ("Hawthorne Studies or Experiments") are a landmark and a begining of a new direction and a new emphasis in management studies ; these showed that an organisation is not merely a formal of lifeless structure but a dynamic, live and vital social system. According to Mayo, whose methods were clinical and diagonostic, workers in a factory constituted a culture of their own which could be observed and analysed. To be effective, management must recognise that the work performed by individuals must provide them social satisfaction along with satisfactory output for management This meant that management should assume a new role in its dealings with employees and it must develop a new concept of authority and right to command, help foster a new social order based on the individual's cooperative attitude and the system of coordinative organisation and communication developed by management. In short, he recommended Sociological concept of Group Endeavour.

Mary Folett :

Revelations of the "Hawthorne studies" were largely anticipated by at least ten years by Mary Folett, whose writings bring out a surprisingly

the operation of social processes and group dynamics in an industrial organisation. According to Miss Folett, the basic problem of every organisation, economic or social, was harmonising and co-ordinating the group effort to ensure the most efficient effort towards completing a task She, therefore, suggested that the manager should try to develop power 'with people' rather than power 'over people'. and for this she recommended 'Depersonalising on order' and making it 'the Law of the Situation'.

In her view, coordination was the core of management which alone could endow a group effort with a 'Plus Value'. This would produce a result in which 'the whole could be greater than the sum of its parts'. In order to resolve frequent conflicts, she strongly recommended 'Integration' in place of the traditional methods of Domination or Compromise. Integration means evolving a third alternative, in which individual differences are integrated to form a new opinion with which everyone is satisfied. In short, Miss Folett's approach was essentially psychological, that is, to study the problems of a business organisation, problems of power, authority conflicts and control, from the point of view of the individual.

Chester Barnard :

Barnard had a profound impact on the thinking about human organisation. His main contributions have been his logical analysis of organisation structure and application of sociological concepts to management. These he presented in his book 'The Functions of the Executive', published in 1938.

Barnard described a formal organisations as 'that kind of cooperation among men that is conscious, deliberate, and purposeful'. He defined it further as 'a system of consciously coordinated activities or forces of two or more persons'. According to him an Executive is the most strategic facto- in such organised and cooperative systems. He then went on to describe three functions of an exeeutive, viz :

(1) to provide a system of communication for cooperative system.
(2) to promote the acquisition of efforts needed for the operation of the system, and
(3) to formulate and define the objectives of the system.

In short, Barnard introduced social concepts into the analysis of managerial functions and processes ; and his emphasis was on leadership decision-making and communication. According to him—

(i) Management is a dual process, technical and social ;
(ii) A factor of real importance, in an organisation, is leadership ;
(iii) The first executive function is to develop and maintain a system o communication.

(iv) Organisations is a system of co-operation ;

(v) Co-operation has to be earned both by financial and non-financial incentives ;

(vi Material rewards, beyond the substisance level are ineffective except to a limited number of men ;

(vii) Opportunities for distinction, prestige and power and more significant than material awards.

Abraham Maslow :

The primary task of a manager is to get people to contribute activities which help to achieve the goals of the groups or the organisation. Traditional managers believed that the only way to motivate people was to use the technique of 'carrot and stick' or reward and punishment. Practising managers, however, soon discovered that the use of this technique could not achieve the expected results from employees. It was at this time that Prof. Maslow put forth, in his now famous book 'Motivation and Personality' published in 1954, his theory of the Hierarchy of Human Needs. According to him, human needs can be arranged in the form of an hierachy starting in an ascending order from the lowest needs to the highest viz. 1) Physiological, 2) Safety, 3) Affiliation, 4) Esteem and 5) Self actualisation. Further, according to Maslow, a satisfied need ceases to be a motivator.

Though Maslow's theory has been severely criticised on several grounds, his identifications of basic human needs has been popular and it offers some help and guidance to practising managers.

Douglas Mc' Gregor :

Douglas Mc' Gregor is noted for his "Theory X" and "Theory Y", which he presented in his book "The Human Side of Enterprise'. He was a behavioural scientist and his central concern was the appliication of behavioual science research to the practice of management and the direction of organisation. He argued that the traditional organisation and management practices were based on certain assumptions about human nature and behaviour Managers, in the past, had not made any efforts to make those assumptions explicit and yet, practices were based on them. Some of these assumptions and practices based on them, are stated below :

(1) Management is responsible for organising elements of productive enterprise-money, materials, machines and men, in the interest of economic ends.

(2) An average human being has an inherent dislike for work and will avoid it if he can ; he must, therefore, be concrced, controlled, directed, threatend with punishment etc, to ensure that he puts

forth adequate effort for the achievement of organisational objectives.

(3) An average human being prefers to be directed, avoids responsibilities, has relatively little ambition and wants security ; this calls for close managerial supervision, detailed control and use of only material rewards to individuals for better performance.

This briefly, is "Theory X". According to Mc' Gregor, wide-spread use of organisation and management practices based on the assumptions of 'Theory X' for many years also could not secure higher levels of output. Rather, they tended to result in wide-spread discontent among employees and frequently gave rise to such phenomena as go-slow, work-to-rule, strikes and wanton destruction of property.

The conventional approach of "Theory X' is based on mistaken notions of cause and effect. Mc' Gregor's observation of behaviour of employees at work led him to formulate a different set to assumptions about human nature and behaviour and to suggest progressive practices based on them. He called it "Theory Y" and its assumptions include the following :

1) [Same as (i) in Theory X].

2) Expenditure of physical and mental effort in work is as natural to man, as play or rest. An average human being does not inherently dislike work ; depending on physical and other conditions, work may even be a source of satisfaction.

3) Man is capable of exercising self direction and self control for achieving the objectives to which he is committed. Evternal control and threats are, therefore, likely to give use to resistance.

4) An average human being learns, under proper conditions, not only to accept but to seek responsibility ; avoidance of responsibility, lack of ambition, and emphasis on security are not necessarily inherent human characterestics.

5) Commitment to objectives is a function of rewards associated with their achievement. The most significant of rewards, such as satisfaction of ego and self-actualisation needs, can direct efforts towards organisational objectives.

6) The capacity to exercise a high degree of imagination, ingenuity and creativity, in solving organisational problems, is widely, not narrowly, distributed amongst people.

7) Under the conditions of modern industrial life, intellectual potential of an average human being is only partially utillised.

8) Managements' primary task is to arrange organisational conditions and methods, so that people may achieve their own goals bestly directing their own efforts.

This is a process primarily of providing guidance, creating opportunites, releasing potential, removing obstacles and encouraging growth.

Critics have called "Theory Y" as idealistic or utopian and have maintained that man is for more complex than what Mc' Gregor visualised. Yet, Prof. Schein concedes that this has 'provided us some guide lines which may help each of us to come to terms with our own assumptions and thereby liberate us to see the world more accurately and wisely'. It does not involve abdication of management : it is what Pater Drucker has called "management by objectives" in contrast to "management by control".

Lurt Lewin :

Among the behavioural scientists, Kurt Lewin is well known for his concept of Field Theory and the technique of Group Dyamics. His Field Theory is regarded as the clearest explanation of how motivation depends on organisational climate. It starts from his celebrated formula : B=F (P E).

Which means human behaviour (B) is a function of Person (P) and his environment (E). In other words, to understand someone's behaviour, at a given point of time, we need to know something about the individual as well as his environment at that time. In the context of motivation, this means that people have differing motivations at various times and that the power with which something motivates, depends on the climate of operation. Relating this to production. People can be seen as operating in a field of restraining and driving forces, and their actual behaviour will depend on these counteracting forces, A manager can try to improve, heir productive effort either by reducing restraining forces or by strengthening driving forces

Technique of Group Dynamics : Group dynamics implies the nature of dynamism in a group, that is, the capacity of a group to adopt new ideas and change with circumstances. Lewin experimented with this technique during the second World War. In one of his experiments, he showed that group discussion and group decision are always helpful in introducing changes ; from this he concluded that acceptance of change is largely a social and group function rather than an individual one.

Rensis Likert

Rensis Likert, a former director of the institute of Social Research at the University of Michigan, conducted extensive research in hundreds of organisations with the help of his associates, in the field of Leadership, and enunciated four basic styles which he presented in his 'New Patterns of Management', published in 1961 and 'The Human Organisation', published in 1967.

These are described as (1) Exploitative-Authoritative
(2) Benevolent-Authoritative, (3) Consultative-Democratic, and
(4) Participative-Democratic,

Likert and his associates also developed a measuring Instrument for evaluating leaderahip styles of individual managrs. This instrument contains 51 items covering variables relating to leadership. motivation. communication interaction ; influence, decision making goal setting control, and performance goals By evaluating a manager in each of these. a profile of a manager can be compiled.

Chris Argyris ;

Prof Argyris. while at the Yale University. made a study of industrial orgnnisations to determine the effect of mangement practices, on individual behaviour and personal growth within an organisation. According to him. seven changes take place in an individual as he moves from infancy (immaturity) to adulthood (maturity). These seven changes may be viewed as being on a continuum.

Argyris contends that many organisations keep their employees in a state, of immaturity. Position descriptions. work assignments and task specialisation lead to routine unchallenging jobs ; they also tend to minimise the amount of control workers have over their environment This, in turn encourages them to be passive, dependent and submissive. and keeping employees in this state is one of the results of the formal organisation, where management likes to control everything, the workers being treated as mere cogs in a big machine This type of thinking is incompatible with the development of a matured personality, and the result is a formal organisation incongruous with a matured personality. Thus, Argyris' findings indicate that management's view of a Worker may be the major stumbling block in the motivation process Unaware of what really motivates employees, management is unable to come up with a viable practice of motivation.

Peter Drucker :

Born in Vienna in 1909, Peter Drucker is a contemporary major influence on management practice. The ideas he put forward in "The Practice of management", many years ago, are still basic tenets of management, throughout the globe.

Drucker's extensive writings are landmarks in managerial profession. His books command attention not for their aphorisms nor for their mastery of technical computation ; Drucker's real contribution to managerial understanding lies, not so much in the cash value of his ideas which doubtless are innovative, as in the rigorous activity of mind, which they generate.

On the issue of profits, Drucker says :

"Actually. a company can make a social contribution, only if it is profitable. To put it crudely, a bankrupt company is not likely to be a good

company to work for, or likely to de a aood neighbour and a desirable member of the community—no matter whut some sociologists of today seem to believe to the contrary.,,

Dracker believes that, in today's world, human freedoms most genuinely cherilhed. depend. to a large extent. for their protection. on large-scale organisations. When successfui, these organisntions allow for a large measure of human fulfilment now availabie to man ; they provide for a main plank for achicvement of personal frcedom and for assumqtion of responsibility through seif cuntrol, If the instiiutions of business cannot meet the grownig needs of economic performance, and the exacting demands of man and society nothing would appear to stand between an individuai and forces of chaos or terror.

—O—

DIFFERENT APPROACHES TO MANAGEMENT

F. W. Taylor and his followers, who were engineers, looked at management mainly from technical point of view, that is, from the point of view of improving task efficiency for securing maximum output from machines, materials and men. Scince then students of different disciplines such as economics, sociology, psychology, mathematics, statistics etc. started studying management, and began to put forward their views about theories of management. As a result, there developed, what Prof Koontz called 'The Management Theory Jungle'. Management thinkers, however have been able to identify and isolate several Schools of Management thought from this jungle ; these include : (1) Traditional or Scientific Management School, (2) Behavioural School 3) Management Process School, (4) Quantitative School, (5) Systems Schools and (6) Contingency School.

Traditional or Scientific Management School : Taylor is acknowiedged as the founder of this School It concentrated its attention on how to increase production and productive efficiency of machines, materials and man. Gilbreths, Emerson, Henty L Gantt are some of the well known followers of Taylor who refined Taylor's techniques or added new dimensions for increasing productive efficiency.

Frank and his wife Lillian Gubreth, are best known for the development of motion economy, in particular the basic hand motion which they named THERBLIGS As stated earlier they developed and refined the technique of motion study with a view to eliminate unnecessary motions and thereby reduce fatigue ; they claimed further that with the help of motion study, it is possible to develop the one best method-the most efficient method for performing each job

Harvington Emerson did more to popularise the philosophy of efficiency than perhaps any of his contemporaries. He formulated Twelve Principles of Efficiency', published in a book.

Writing about Scientific Management, in 1954. Peter Drucker stated "Altogether it may well be the most powerful as well as the most lasting contribution, America has made to the Western thought. As long as the industria society endures, we shall never loss again the insight that human work can be studied systematically, can be analysed, and can be improved by work on its elementary parts".

Behavioural School : The emergence of the behavioural approach to the study of management may be regarded in a sense, as a revolt against the exclusive emphasis on machines and materials by the Scientific Management School, and to the almost complete neglect of human factor in industry.

The advocates of the Behavioural School argued that in as much as a manager gets things done through and with the help of people, the study of managements must be centred around the workers and their interpersonal relations. They, therefore, concentrate on the study of the individual his psychological, motives, the informal groups, group dynamics and motivation. These schools lean heavily on most social sciences including psychology, sociology, social psychology and anthropology. It concerns itself with understanding the relevant phenomena of intra-personal and inter-personal relationship as they relate to the work situations as well as with obsering work group as anthropological sub-cultures. It opened the floodgate of investigations of human resources.

The origin of this school may be traced to 1879 when Wilhelm Wundt established, at Leipzig, a laboratory for the study of human behaviour, a major step in transforming psychology to an experimental science. It was Dr. Munsterberg, his student and a professor at Harvard, who published his book 'Psychology and Industrial Efficiency' in 1913, introducing the new field of Industrial Psychology.

It is, however, Prof. Elto Mayon who is regarded as the father of Behavioural School, working at the Department of industrial Research at the Harvard University, he led a team conducting a series of experiments at the Hawthorne plant of the Western Electric Company to evaluate attitudes and psychological reactions of the workers in on-the-job situations under different physical conditions of work such as illuminations, hours of work, rest pauses, as well as monetary and non-monetary benefits. From the record of their reeactions, behaviour and productivity under these changes, Prof, Mayo drew conclusions :

1. A factory is not only a techno economic unit but it is also a social unit.
2. Workers in a factory spontaneously ~~from~~ form small informal groups and their behaviour is greatly influenced by these groups.
3. The attitude of the supervisor and his style of supervision influence worker's attitude to work and their productivity.
4. While wages physical conditions of work do exereise some influence on workers and their productivity, a far greater influence is exercised by their interpersonal relations, and by the attitude of the supervisior.

A discussion of the Behavioural School will be incomplete without acknowledging the basic contributions of Mary Follett. Having acquired international reputation as a Political Scientist through her books. 'The New State' and 'Creative Experience', she turned to the study of individuals

and group in business situations. She was the first to clarify concepts of Power, Authority, Control and Conflict in business organisations, and to offer valuable guidance to practising managers in these matters.

Management Process School : This school is based on a theory of management around the managerial process of getting things done by and through people whose efforts, in organised groups, are directed towards a common goal. This theory attempts to analyse, by (a) an investigation of the process, (b) setting out a conceptual frame work, and (c) formulating generalisation or principles that underline the process.

According to Henri Fayol who is universally recognised as the founder of this school, and later writers like Newman. Koontz and O'Donnel, Terry and Brech, who refined the process theory, the management process involves planning, organising, staffing, directing, controlling and motivating.

Advocates of this school further argued that the management process is universal in the sense that it occurs not only in business but also in non-business organisations ; it applies not only to top management but also middle and first line management levels. Furthermore it is claimed that management principles distilled from experience possess universal validity in the sense that these hold good under all conditions, in all countries and at all times ; this claim, however, is open to question.

Prof Koontz is of the view that the management process approach has certain advantages for students, researchers and practitioners, such as—

(1) It helps to present effectively knowledge about management.

(2) It provides a starting point for researchers to verity their validity and to improve their applicability

(3) The principles help practising managers in improving practices. It may, however, be pointed out that though these provide a scienfific basis for management practice, in real life the principles have to be adapted to such environmental variables as political, social, cultural and economic conditions of the countries where or people among whom the business organisations operate,

Quantitative School : It is only after the second world war that this approach has attracted attention. It makes use of mixed teams of, for example, a mathematician, a physicist, an economist, an engineer, an accountant and a statistician, to study a problem in say inventory management By thus studying the problem from different point of view, the resulting solution should be much better than could be achieved otherwise It is thus a scientific method utilising all possible scientific tools for providing

a quantitative basis for managerial decisions. It is, therefore, labelled as quantitative approach, operations research approach or management science approach,

This approarh consists of the following steps

1) Formulation of the problem.
2) Construction of a mathematical model to represent the system under study ; this model expresses the effectiveness of the system as a function of a set of variables, at least one of which is subject to control.
3) Devising a solution from the model ; this involves finding the values of 'control variables, that maximise the system's effectiveness
4) Testing the model and the solution derived from it ; this involves evaluating the variables, checking the model.s predictions against reality, and comparing actual with forecasted results.
5) Establishing controls over the solution ; this involves developing tools for determining when significant changes occur in the variables and functions on which the solution depends, and determining how to modify the solution in the light of such changes,
6) Putting the solution to work,

Scientists and engineers have been involved in military activities for as long as recorded history. One of the best known instances in ancient history occured in 212 B C, when the city of Syracuse employed Archimedes to devise means of breaking the naval seige of the city, under attack by Romans. In England between 1914 and 1915, F. W. Lanchester attempted to treat military operations quantitatively ; he obtained expressions relating to the outcome of a battle to both the numerical strength of the combatants and their relative fire power. Again, in England during the Second World War, effective military operations research efforts were undertaken. The techniques were used in improving early warning radar system, in anti submarine warfare, in civilian defence, in determining convoy size, in conduct of bombing raids on Germany etc.

It was only after 1947 that this technique was introduced in busi- [illegible] Nationalised industries [illegible] experimentations with [illegible] techniques O R techniques were first used in [illegible] hospitals, department stores, [illegible] Since then, a [illegible] have been developed and widely [illegible] The more well-known among

these are : 1) Linear Programming 2) Queueing Theory, 3) Monte Carlo Methods, 4) Game Theory, 5) Information Theory, 6 Probability Theory, 7) Sampling Theory 8) Inventory Control Models, 9) Critical Path Method, and 10) Programme Evaluation and Review Technique.

Systems School : The first management writer and practising manager to see management in the context of systems was Chester Barnard. He saw an executive as a component of a formal organisation and the latter a part of the entire co-operative system involving physical, biological, social and psychological elements

A system has been defined as an assemblage of things connected or inter-dependent, so as to form a complex unity ; a whole composed of parts in an orderly arrangement according to some scheme or plans. The major key-concepts involved in systems theory are :

1. The whole is not just a sum of the parts but a totality.
2. A system may be either closed or open. A system is open if it exchanges information ' energy or material with its environment like a businsss organisation ; if it does not have such reactions with its environment, it is called a closed system.
3. A system must have boundaries that separate it from its environment, In the case of a social system, however, these boundaries are not rigid.
4. Closed physical systems are subject to entropy-the tendency to 'run down' , open systems, beeause they receive inputs from their environment, do not suffer from entropy.
5. An open system in order to survive must receive sufficient inputs to offset its outputs
6. If a system is to achieve dynamic equilibrium, it must have feedback, that is an informational input that tells whether the system is achieving at least a steady state and is not in danger or gradual destruction.
7. All system, in general, have subsystems and are also part of a suprasystem.
8. Open systems, particularly social, can achieve desired results in various ways [illegible] of [illegible] or processes [illegible] "equi finality". In such systems [illegible] be accomplished [illegible] varying inputs and [illegible] methods, [illegible] rule, there is no single best way.

An advantage of the Systems Approach is that it enables us to see critical variables and constraints and their interactions, with one another

It forces a practising manager to be constantly aware that one single element or phenomenon should not be treated without regard for its interacting consequences with other elements or phenomena.

Contingency School: Contingency approach was first advocated by J W Lorsch and P R Lawrence in 1970. These writers criticised all earlier approaches (except the Systems Approach); according to them, the essence of all these approaches is that there is "one best way" to manage. They, however, assert that Taylor may have been right when he said that there is one best way to perform a repetitive practical operation, but that is not true of decision making, planning, organising etc. Different organisations with different tasks and differing competitive environments require different decisions and plans, in varying situations.

The essence of Contingency or Situational Approach is that the internal functioning of an organisation must be consistent with demands of organisation task, technology or external environment, needs of its members etc if the organisation is to be effective. Rather than searching for the one best way to organise under all conditions, it is better to examine the functioning of the orgahisation in relation to the need of its members and the external pressures facing them.

Contingency View of organisations and their management, according to F E Kast and J. Rosenzweig, suggests that a business organisation is a system composed of subsystems, and seek to understand the inter-relationship within and among the subsystem, as well as between the organisation and its environment. Its aim is to suggest organisational designs and managerial actions most appropriate for specific situations.

This approach also recognises the reality that management and organisation are open systems and processes in continuous interaction within themselves and with other systems. Further, there is no one-to-one cause and effect relationship between inputs, processes and outputs in an open system, because of the operation of a multitude of intervening variables which prevent the system from responding in simplistic and predictable manner.

This school also believes that there is nothing final either about means or ends. They are tentative and are related to each other. There is no one best goal. Goals are multi-dimensional and management may try to maximise their attainment. Similarly, goals may be determined not necessarily at the beginning but as means are being made available. Abilities of managers, their value systems, their subjective notions and the objective realities of the organisational and external environment enter as inputs into the management process and powerfully influence the quantum and quality of outputs.

In conclusion, Contingency approach discounts the notion that mechanistic, simplistic principles developed by Taylor, Eayol and other classical theorists, have universal generality and applicability. Even behavioural and quantitative approaches to management are not free from the obsession of the "one best way" of doing things Behavioural theorists lean too much on psychological theories of organisation, while quantitative school emphasizes a prescriptive, precise approach in terms of logic and rationality. Systems and Contingency approaches recognise the complexity of organisations and their environment and the variability of their interactions. Systems approach enhances our understanding of organisational dynamics and complexities. Contingency approach endows organisations and management with flexibility in order to grapple with a variety of situations ; It requires a pragmatic bent of mind with emphasis on situational analysis and with evolving appropriate managerial practices for varying situations. It however, should not mean that a manager can take any decision or action and justify it by saying that "it all depends' on conditions, and situations.

While conceding general superiority of Contingency Approach, it is necessary to sound a note of warning that it should not be interpreted to mean that the other theories and principles have no value to a practising manager, and that he is free to pursue his narrow goals, with complete disregard to social and ethical factors.

Finally, in approaching a clarification of management theory. Prof. Koontz suggests that a few criteria be kept in view :

The theory—

(i) Should deal with an area of knowledge and enquiry that is "manageable"

(ii) Should be useful in improving practice ; and in this regard. the task and the practitioner should not be overlooked ;

(iii) Should not be lost in semantics or in useleses jargon, not intelligible to practitioners ;

(iv) Should give direction and efficiency to research and teaching ; and

(v) Must recognise that it is a part of a larger universe of knowledge and theory.

Decision Techniques

Delphi Technique for Group Decision-making.

Another qualitative technique for group decision making is celled the Delphi Technique. This name has come from the ancient Greek mythological episode of the Oracle of Delphi In this technique, the members of the group are not required to be physically present in one place, nor are they required to take ultimate decision as in the Brain-storming technique.

In this technique a questionaire about the problem is sent to the selected experts and they are invitec to express their views and opinions on the problem.

When their responses are received, they are tabulated and summarised and a report of this is sent to them. Alongwith this report a second questionaire designed to probe any issue that needs further elaboration or consideration, is sent.

The feed back report is evaluated, and members are requested to rate or vote on various ideas presented by the members. The information received is then tabulated and the decision is made by the management. The summary of the information received and the decision of the management are communicated to the members.

Thus, in this technique the decision maker has a large number of ideas before him to choose from and the views of the members on the ideas of others The ideas are likely to be original, and views are likely to be free and frank as the identity of the members is not known and so there is no fear of being laughed at or rediculed.

Different Approaches to Management

Human Relations Approach : The emergence of this approach and the wide spread popularity it gained for some time may be regarded as a revolt against the Scientific Management Approach which had placed [illegible] on machines, methods and materials for higher production and [illegible] completely neglected the human factor. The advocates of [illegible] Relation Approach argued that in as much as a manager [illegible] results with the help of other men, study of management should be centered around workers and their interpersonal relations.

Prof. [illegible] Mayo, professor of sociology in the Harvard University [illegible] as the founder of this approach. At the

invitation of the Western Electric Company, he conducted four experiments between 1924-1932 at the Hawthorne plant of the Company.

They have come to be regarded as the land marks in the history of management thought. In the first experiment known as *The Illumination Experiment*, it was observed that improved worker productively could be achieved by improved physical condition at work, as well as by informal social relations between the members of the work group. In the second experiment known as *The Relay Assembly Test Room Experiments*, several new elements in the work atmosphere, such as shorter daily hours of work, rest pauses, free tea, coffee and lunch, and friendly and informal supervision, were introduced. It was observed that there was consistent increase in productivity throughtout the period of experiments. What is more important, even when all the above improvements were withdrawn, higher productivity of the group was maintained.

The Third experiment known as Bank wiring observation Room Experiment in which group of 14 workers was observed with regard to their work behaviour and output. It was observed that the informal group had set up production norm which was lower (6850 connections) than the official norm which was 7311 connections, and had seen to it that the group did not go for below or above its norm.

The fourth experiment known as *Massive Interviewing Programme* in which all employees of the factory were interviewed by outside experts, and many were interviewed more than once. They gave some insight into the percephans of the workers as regards their social and psycological needs and their influence on their behaviour at work.

From these experimens s, Prof. Mayo drew the following conclusions :

1. A factory is not only a technical unit, it is also a social unit.
2. Workers in a factory spontaneously form small informal groups and their behaviour at work that is, their output is greatly influenced by such iuformal groups.
3. While wages and physical conditions of work do exercise some influence on workers and their productivity, a far greater influence is exercised by their inter personal relations.
4. The attitude of the Supervisor and his style of supervision also exercise some influence on workers attitude to work and their productivity

The results of these experiments were published in 1941, in the form of a book *Management and the Worker* by Prof F Roethlisberger and William Dickson. They suggested to the management the importance of considering the needs and feelings of employees in their work setting.

They also inspired many social scientists to undertake projects to understand more about the social and psychological aspects of human behaviour at work. All these studies provided the theoretical basis for the Human Relations Approach. This approach suggested that the management should try to satisfy the psychological and social needs of employees, and should recognise and respect their sense of dignity as human beings.

Criticism of Human Relations Approach

Factory managers interpreted those experiments to mean that if they could make worker feel happy at work, productivity would automatically increase. To achieve this many of them began to use to various short-cuts such as: 1) Welcoming each worker every morning with a broad smile, 2) occasionally enquiring about his health and the health of his family, 3) giving a pat in the back for nothing in particular, 4) providing puring music at work, 5) organising picnics occassionally etc. These things initially made a favourable change in the behaviour of workers, and both workers and managers felt happy. Gradually, workers began to see through these gaestures and realised that they were merely gimmicks, and the attitude of managers towards the worker had not undergone the expected change, namely a genuine interest in the workers, respect for them as individuals, and the desire to understand their social and phychological needs. As a result the expected increase in productivity did not materialise after some time. All this amounted to a criticism of presudo defective) human relations approach.

More serious criticism came later from the social scientists (Sociologists and psychologists) who questioned the assumptions underlying this approach; these assumptions were:

1) A factory is purely a social unit and the objectives of the factory managers should be the happiness of workers.
2) Happy workers are necessarily more productive.
3) Workers are a homogenous group, and their needs and attitude remain constant
4) All problems are human relations problems and so they can be solved, and there need not be any conflict between the workers and between managers and workers.

The third point of criticism centred on the methodology used in the conduct of these experiments It was contended that the samples selected for the first three experiments were too small and so could not be regarded as representative of the large mass of workers Further, they gave the impression that the studies were designed to confirm preconceived

notions and not to discover the truth. Finally, the behaviour of the girls in the Relay Assembly Test Room Experiment could not be regarded as natural as a high degree of publicity given to them might have distorted it

Substantial contributions of the Human Relations Approach.

In spite of all the above criticism, it must be recognised that the Human Relations Approach has made substantial contributions to management theory. First, it dramatically attracted the attention of managers to the vital importance of man in industry. Second, it brought to the notice of the management the fact that employees spontaneously form small informal groups at work, and these informal groups exercise considerable influence on the behaviour of employees at work, and their productivity. Third, while wages and material rewards do influence employee productivity, inter personal relations among the members of group also exercises some influence on the attitudes and productivity of the group. Finally, the supervisor and his style of supervision also play a part in the productivity of employees

The Behavioural Science Approach : The behavioural science is concerned with the understanding of human behaviour, and for this it has adopted the scientific method. It includes Psychology which seeks to study individual behaviour, Sociology which studies group behaviour, and Anthropology which studies the influence of physical, biological and cultural factors on human behaviour. This approach seeks an understanding of organisational behaviour with the help of scientific and emperical research. Based on these studies, it has been able to develop verifiable and pragmatic propositions about human behaviour in organisations. It offers these as guide-lines to practising managers in decisions and actions affecting the the organisational personnel This approach has formulated the following propositions.

1. Organisations are techno-economic, and social units.
2. Individuals differ in their attitudes, perceptions, abilities, needs and values, and these change over a period of time.
3. Conflicts in organisations between individuals and between the management and the employees are inevitable, and to some extent, they are necessary for progress.
4. Interpersonal behaviour in organisation is influenced by a variety of factors.

Over the last forty years, important contributions have been made to our knowledge of human behaviour in organisations by a number of social scientists, The notable among these are : Mary Parker Follett, Chester

Barnard, Abraham Maslow, Douglas Mc Gregor, Kurt Lewin, Rensis Likert, Chris Argyis, George Humans, Victor Vroom and many other scholars. Their contributions have been described briefly in the Chapter I of the Study Notes. The major areas of research of the behavioural scientists have been the following.

1. Implications of technology for organisation structures,
2. Organisational behaviour as a result of interactions of people within and with the external environment,
3. Communication systems in the organisation,
4. Group Dynamics, and Group Processes of cohesiveness, group problem solving, group decision making etc.
5. Management of change in organisations,
6. Leadership in organisations, motivation process and techniques.

In conclusion, it may be stated that Behavioural Approach represents an improvement over the Human Relations Approach While both the approaches emphasised the importance of the human factor in industry, the behavioural approach has no preconceived nations about the causes and their effect on behaviour of people in organisation. It adopted a purely diagnostic approach and advised practising managers to adopt the same.

Secondly, the social scientists developed such suitable tools as (i) observation of individual and group behaviour (ii) Interviewing structured unstructured, and depth Interviewing, (iii) Experiments with small groups, for carrying out their research.

Thirdly, on the basis of their extensive research, they have been able to formulate tentative conclusion as regards forces which influence human behaviour in organisations Since then practising managers have found these as useful guide-line for handling behavioual problems.

Importance of Management Principles

Management principles may be defined as "fundamental truths which have been distilled from careful observation, experience and reflective thinking". Henri Feyol, who has been universally recognised as the father of modern management theory, was the first to formulate fourteen principles of management, derived out of successful managerial experience of over fifty years. He claimed that these principles have universal application, and he advised practlsing managers to follow them. For fifty years all management writers included them in their books, and practising managers all over the world accepted them and did not raise any objections against them.

Prof Harold Knootz who claimed to be the follower of Henri Fayol's Management Processes Approach was the first to point out that the management principles cannot have universal application. They will have to be modified according to the stage of economic development, educational and cultural levels of the people and such other factors in different countries. Since then classical management principles have been criticised by many on various grounds. Advocates of management principles readily concede that they do not and cannot offer ready-made solutions to managerial problems. Yet they point out that managers who attempt to manage without the knowledge of these principles have to trust in their intuition or luck, or in the precedents which are not very reliable as the basis for managerial decisions and actions. They further claim that the knowledge of management theory and principles can and do help practising managers in many ways. The more important of these are indicated here.

Advantages of Management Principles.

1. They help to improve an understanding of the problem and the process of management
2. They help to develop some measure of mental discipline which trains managers to organise their thinking in a logical and systematic manner.
3. They encourage to develop an objective, mature, and unemotional approach to planning, problem-solving and decision making.
4. They help in increasing time and space horizon of managers beyond the immediate future, beyond their individual departments, and beyond their individual organisations.
5. They help to develop a proper perspective at organisations, their behaviour, and interactions.
6. Managers with theoretical knowledge will tend to depend less on their formal authority to get things done by their subordinates, instead they will draw on their theoretical insights and command respect and compliance from subordinates This will help to reduce personal conflicts.
7. They provide a better basis for communication both with the colleagues within the organisation and with professional managers in the outside world. This will help to sharpen their ideas and experience by the process of interaction.
8. Practising managers with the knowledge of theory will be able to extend moral and material support of their organisations to the universities and management training institutions in the conduct of their Management courses. This will also accelerate the process of research in management.

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Define Management. Discuss fully its functional elements.
2. Survey briefly historical background of management development.
3. "The present-day management concepts and practices are not inventions of the twentieth century ; they existed and where used since the ancient times". Discuss.
4. Examine critically the contribution of F. W Taylor to modern management.
5. "Fayol and not Taylor should be called the father of modern management". Comment fully and critically.
6. Describe briefly the different approaches to the study of management. Which would you regard as the best and why ? Give reasons for answer.
7. Explain clearly the steps in the process of Scientific decision making, giving examples wherever possible.
8. Write notes on the following :
   1) Management as an Art,
   2) Management as a Profession,
   3) Management as a Science,
   4) Gordon technique,
   5) Bounded Rationality.
   6) Brain storming.
9. Discuss some of the more important post Taylor-Fayol trends in management thoughts.
10. Write a critical essay on Decision making in business.

STUDY NOTE : II

I

PLANNING : GENERAL

Back Ground : The need for production planning was recognised and advocated by F. W. Taylor ; Henri Fayol designated it as the first element in his managemeut process. And yet, business executives from the U.K., the United States and even France, did not, at the onbet, show much enthusiasm for it. Soviet Russia, however, adopted this concept and introduced its first Five year Plan in 1929. Perhaps, this made the concept of planning unacceptable to managers in free—enterprise economies, as it implied a tacit acceptance of government control and regulation of economic activities. During the Second World War, however, many executives from private industry, both in the U K. and the U.S.A., were associated with, and directly involved in, preparations and execution of government plans in military as well as in civilian matters. Their experience convinced them about advantages of planning and so, when they retarned to their old jobs after the end of the war, they adopted the idea of planning and went about formulating and implementing short term and long term plans for their organisations. In India, we adopted the concept of economic planning and introduced our first Five Year Plan in 1950. There-after large business organisations graduall began to plan their activities, and today, planning has become a very familiar concept.

Importance of Planning : Whenever a number of individuals come together and decide to achieve a common goal, planning becomes necessary. It involves deciding, in advance, what to do, how to do it, when to do it, and who is to do it. In the absence of planning, actions would become merely random activities producing nothing but chaos. Planning helps to bridge the gap between where we are to where we want to go, and this makes it possible for things to occur which would not otherwise happen.

Planning is basic to all the rest of management functions planning etc. Planning throws the searchlight of collective human wisdom, experience and ingenuity into darkness of the future ; it helps to foresee hazards and pitfalls well in time, so that one may be equipped to face them it and when they arrive

Difinitions of Planning : According to Koontz and O'Donnel, 'Planning involves selecting enterprise objectives, departmental goais, and programmes and determing the ways of reaching them. Planning thus provides a rational approach to pre-selected objectives'.

According to Philip Kotter, "Planning is deciding in the present what to do in future It is the process whereby companies reconcile their resources with their objectives and opportunities".

Mc Farland defined planning in business as 'selecting the best course of action for achieving the pre-determined objectives of a business, after making a careful evaluation of present conditions and future trends regarding the external forces and internal resources'.

In the light of the foregoing, it is clear that Planning involves ;

(1) Determination of objectives and goals of the organisation, and laying down specific targets ;

(2) Appraisal of current conditions and resources, and analysing factors involved in the realisation of (1) ;

(3) Collection of relevant data and an intelligent, imaginative understanding of their inter-relationships ;

(4) Prediction of future developments and their impact on the organisation ;

(5) Evolving alternative courses of action, on the basis of data collected and keeping future trends in view ;

6) Weighing merits and demerits of each course and deciding on the best course of action, involving the minimum of time, money and other resources, and

(7) Working out details of the selected course of action breaking it down into different items of work, charting chronological sequence for each, etc.

Need for Planning : The need arises because of the fact that socio-economic environment in which a business organisation is operating is continuously changing , and these changes, over a period of time, can have considarable impact on the organisation Amongst the more important of these changes, are those connected with

[illegible] technology of production,

[illegible] population

[illegible] and per capita incomes, and

[illegible]) [illegible] and fashions of consumers

[illegible] *T[illegible] Changes*

Since 19[illegible] revolutionary ehanges have been taking place in the technology of production of most of the industries , for example, automated [illegible] and synthetic [illegible] have replaced [illegible] to a great extent. Many textile mills in India did not catch up with these changes for quite some time and so many of them continued to use the old machinery and materials. As a result they

[illegible]

found themselves unable to complete with those mills which quickly adopted new technology, and so have become sick mills and a burden to society.

2. *Changes in Population* :

Changes in population have a considerable effect on the demand for a company's product. The management must, therefore, try to predict the nature of these changes. It must ascertain first the particular section of the population children, teen-agers, the age group of 21 to 50, elder people, men or women which constitutes its major customer, and then try to predict the quantitative changes in the number of the specific group. Failure to do so would mean loss of opportunities to plan for production and marketing of the product for the particular group.

3. *Changes in National and Per Capita Incomes* :

As only people with money in their pockets constitute customers for a business, it is necessary to understand the changes in the trend of national and per capita incomes However, usually it is only one or two income groups which normally constitute customers of any business and so, it is necessary to have reliable information about the number of families in the specific income group as well as about the quantitative changes in their incomes, if significant

4. *Changes in Tastes and Fashions* :

Consumer products are to day more subject to change in demand due to the changes in tastes of consumers or changes in fashion. As a result, the demand for an existing product for example, cotton clothes, brass vessels, coloured sarees, might fluctuate considerably ; manufacturers of such products, therefore, should try to predict the nature of changes in tastes or fashions of their potential consumers. These factors undergo substantial changes over a period and such changes will affect favourably or unfavourably, not only prospects of growth and prosperity, but also the very survival of a business in the long rue. It is, therefore, imperative to endeavour to predict the direction, if not the exact quantum of these changes in formulating long term plans.

Advantages of Planning

Successful planning confers positive and all-round benefits to the organisation, such as the following.

1. Economy of Time and Effort : As planned activities are subjected to a careful scrutiny, unnecessary activities are eliminated and only essential activities are under taken to accomplish the specific work. Thus, overall time and effort for the planned activity is reduced to the minimum

2. *Maximum Utilisation of Resources :* As planning involves taking stock of all available resources including human resources, it reveals hidden resources which might have hitherto remained unutilised ; this makes maximum utilisation of such resources possible.

3. *Planning compels managers to visualise the complete picture about the future.*

This is valuable as it enables them to see important inter relationships, to gain a fuller understanding of each activity and to appreciate the basis on which their managerial actions are planned.

4 *Planning provides a basis for control :*

Planning involves not only determining objectives and fixing the time for starting and finishing each activity, but it also lays down sub-goals to be achieved at different points of time, during the entire plan period This enables management to compare actual performance with what has been planned, thus providing a basis for control.

5 It sets the enterprise goals in their proper perspective.

6 It gives meaning and content to the time-horizon in the enterprise life ; it compels forethought-global, in the wider socio-economic environment and internal, within the enterprise management.

7 It provides the tempo of and gives the direction to, the management process.

Limitations of Planning :

In spite of its basic necessity, planning, unfortunately, has not been as widely adopted as it deserves, as it also perhaps suffers from some practical limitations.

One of these is uncertainly about the future A plan is formulated on the basis of certain assumptions about future developments ; its usefulness, therefore, will largely depend on subsequent correctness of these assumptions. If the actual conditions under which the plan has to be implemented are significantly different from those which had been assumed, much of the efforts which have gone into making the plan would be waste.

Critics of planning also argue that resources spent on planning could better be spent in actually performing the physcal work to be done and it is, therefore, a waste to spend them on planning. The answer to this is that expenditure of resources on many unplanned activities might well prove entirely unproductive and, to prevent this, planning is essential.

Managers have often complained that a clearly formulated plan forces them into a straight jacket, and leaves no room for their initiative. Though there may be some element of truth in this view it must be pointed out that no plans can be drawn in all their minute details and most of them generally

do provide for some degree of flexibility, to facilitate necessary adjustments due to changes in conditions.

However, the real reluctance seems to stem from the fact that all planning is essentially an intellectual activity, which demands a capacity for deep and sustained thinking, some degree of imagination to perceive inter-relationships of various forces, and and ability to visualise their total impact. Uniforlunately, not many managers are endowed with these qualities, nor are they always willing to make an effort to develop them Often, they are impatient for action "here and now" and are therefore, unwilling to undertake vigorous planning activity.

Planning Premises :

A refinement of the planning process is the establishment of premises, which are forecasts of future events and basic policies expected to be applicable ; in other words, these are assumptions about future settings, against which all planning takes place.

Some of the premises are external eg. general business forecasts, markets for products etc. ; others arise from within the organisation eg. plant capacity, attitudes of key executives, number and quality of skilled workers etc.

Forecasts :

A forecast is tomorrow's expectation, based on yesterday's achievements and today's plans. It is the window that opens up several independent variables of the management system :

(a) Time dimension - the unknown future which must be foreseen ;

(b) Outside environment – the society, the economic, business and the political world, with which an eterprise is confronted ;

(c) In-organisational current and ripples.

Forecasting techniques for planning, fall under three broad groups :

(i) Intuitive methods, consisting of rhythm and projection methods,

(ii) Deductive methods, consisting of Logical deduction from the past, head-lag deduction from environmental forces and Diffusion method

(iii) Analytical methods, consisting of partial differentiation method, consultation method and mathematical models,

(Further details may be looked up from a text book).

Certain signifiact factors, with regard to external environment, necessary to develop accurate forecasts, include the following :

1) Economic Conditions, 2) Government Policies and 3) Competitors' Activities.

Economic Forecasting : **This involves predicting changes in the major economic indicators, namely, gross national product, population,**

employment, per capita incomes, etc. To day, there are many authoritative sources like the Census Reports, National Income Reprots, Reports of Agricultural and Industrial Outputs, Price and Employment statistics which are periodically published and which provide reliable estimates about changes in these factors. Further, mathematical and statistical techniques, econometrics and extrapolation for projection current trends are available to planners for making reliable forecasts about future economic developments.

Government Policies : Present day governments of most countries are committed to general and specific objectives as regards the size of their G. N. P. s., per capita incomes, levels of employment, development of backward areas, encouragement to small scale industries etc. They try to achieve these through the instrumentes of their Industrial Policies, Monetory and Credit Policies, Taxation Policies, Foreign Trade Policies and the like These policies or some of them, are bound to afiect the fortunes of almost every business. A planner, therefore, must attempt to predict the nature of changes in these government policies and their possible effects-favourable or unfavourable-on his business,

Competitors' Activities : It is against the forecast about general economic conditions and government policies that a business has to prepare its own sales forecast. It requires identification of who the customers are, how many they are, where they are located and how much of his product they are likely to buy. This forecast may be initially based on the organisation's own past sales record, but it should also be suitably supplemented by the techniques of the Jury of Executive Opinion, Survey of Sales Force, Survey of User Expectations etc. A very inportant factor which must be considered in making a sales forecast, is the information about the probable moves of the major competitors, like introduction of a new product, advertising and sales promotion campaigns and other significant actions directed towards capturing a greater share of the market. The final sales forecast, made after taking into account all these factors, is the starting point for all operational plans.

II

HIERARCHY OF PLANS

It is useful to consider a hierarchy of plans corresponding to the three levels of management and to the three time periods. Top management is responsible to formulate company-wide, long term plans which are broad in scope and relate to long term objectives and goals of the organisation. These include decisions about (1) New products, (2) physical and financial facilities and (3) people and organisation. Top managements alone can take decisions on these issues because they are in constant touch with the external environment and are capable of raising the necessary resources

Middle management has responsibility formulating supplementary goals. production and sales programmes, and suitable policies for all functional areas. Finally, First-line management or the supervisory personnel are entrusted with the responsibilits for fixing short-range goals such as production or sales quotas and also to carry them out successfully. The advantage of this hierarchical arrangements is that it gives a better frame of the entire range of planning in the organisation, and enables members of the top management as well as other managers to see how various plans are related to each other and together form an integrated whole.

It is also useful to note, the importance of co-ordinating and integrating short-terms plans with long term ones ; as in real life, short range plans are often made without much thought as to their effects on remote, long-range plans. For example, the decision of a purchase manager to hastily build huge inventory of raw materials to-day might conceivably prevent acquisition of better stock, at favourable rates, a few months later Top management must, therefore ensure that no short term plan is approved unless it is seen to contribute to the achievement of the relevant long-term plans.

Types of Plans :

Plans may be classified according to (1) kind, (2) purpose, and (3) use. Plans regarding objectives, policies procedures, rules, methods, programmes, and budgets belong to the first type ; Operative and corrective plans belong to the second, and single use and repeat plans belong to the third type.

Plans according to kind :

1. **Objectives may be considered as plans in that they hava to do with future activities, require foresight and imagination in determining them, and are an integral part of planning.** To determine and identify the desired goals require varying degrees of planning.

2. Policies are plans of another variety as they constitute guidelines for actions of all managers. Examples of policies are on rates of dividend, promotion from, within, reservation of a percentage of vacancies for economically, socially or physically handicapped persons.

3. Procedure is a third kind of plain. It provides a chronological sequence for carrying out an activity within the limits set by an approved policy

4. Rules are plans in that lay down actions to be carried out or not to be carried out (eg. No smoking) and are chosen from among alternatives. A rule is related to a procedure in that it guides action, but specifies no time sequence.

5. Method is a result of planning the manner in which each task in a procedure is to be performed in order to achieve goals with high efficiency ; these are very common in manufacturing industries etc.

6. *Programmes* : are a combination of goals, policies, procedures rules, task assignments, steps to be taken and resources to be employed to carry out a given course of action,

7. *Budgets* : A budget is a plan which states expected results, of a given future period, in numerical terms A budget may be expressed in financial terms or in terms of units of a product or a volume of output. It may reflect capital out-lays as the capital expenditure dudget or it may deal with operations as the operating budget or it may show flow cash, as the cash budget. A budget is a basic planning instrument ; it forces and enterprise to prepare, in advance, numerical estimates of expected activities such as cash flow, expenses. revenues, operations, capital out-lays, or man and machine hour ulitisation.

Budgets, infact, are instruments, of planning and also of control, and will be dealt with in future details, in a Inter Study Note eg. No. 7.

Plans by Purpose : Plans which involve initial or original operations belong to this category : these are frequently employed in connection with new goals or new ideas of the planner. Operative plans also belong to this category as these are concerned with the implementation of current plans for achieving desired results. Similarly, corrective plans to provide remedial action with regard to any part of a plan which has not produced desired results, also come in this category.

Plans by Use : Under this heading come single-use and Repeat plans. Single use plans are expendable in the sense that these are used up when

objectives are achieved ; these include programmes, budgets and corrective plans.

In contrast, much of the planning carried out by a manager, is focussed on repeat plans Objectives, policies, and procedures come under this category as these are referred to and used repeatedly.

Need for a Strategy: For years, it was only the military high command who used strategies to win battles and wars. After the Second World War, big corporations also found it necessary to use strategies for ensuring prosperity and growth in competitive markets Robert Anthony defines strategies as resulting from "the process of decision on the objectives of the organisation, on changes in these objectives, and on the policies that are to govern the acquisition, use, and disposition of these resources". This implies that a strategy is a broad programme of action and deployment of resources to attain comprehensive objectives. The Stanford Research Institute however, has taken a different view and has defined strategy as "the ways in which a firm, reacting its environment, deploys its principal resources and marshalls its own efforts in pursuit of its purpose". This emphasises the need for strategy because of dynamic changes in the external environment. Of the different elements of external environment, to elements viz government policies and actions and competitors, actions change frequently and create many problems It is to meet such challenges that appropriate strategies have to be developed.

Every business organisation operates within the overall socio economic and political environment of a country A business enterprise has, therefore, to design its master strategy within the constraints imposed by this environment. The long-term success of a business enterprise depends, to a great extent, upon how it responds to the changes in this environment, how it looks at its role and how far it fulfils the expectations of the society. Business strategy Business strategy attempts to provide answers to some vital and crucial questions, such as : What business are we in, and in what business should we be ? Is our business generally useful for the economic development of the country ? Why should society accept us ? Is the society receiving anything back from us ?

Steps in formulating a Strategy :

The first step in formulating a strategy is to give a searching look within the organisation, so as to identify the main areas of strength of the business in order to make a full use thereof. An organisation may have surplus cash resources as a result of merger with a bank, another company may have a high calibre sales force and a wide-spread distribution

net work, a third company may have a highly competent general management cadre and so on. It must also identify its areas of weakness so that they can be overcome or strengthened.

The second step to look around to perceive environmental factors-socio economic and political, for help in formulating a strategy. The importance of this cannot be over-emphasised as a strategy may be likened to be a link between inner working of the company and external environment. This would enable the company to identify and choose a particular segment of the market, or to develop a suitable niche for itself where it has considerable growth prospects and then marshall all its resources technieal, managerial, financial, and human-to establish itself and to grow. A few examples may show how different Indian Companies developed different strategies since 1970 in order to expand in spite of environmental constraints, A Textile Mill was established in 1970's at a time when a large number of textile mills had become sick. Its management, however, searched for a niche for itself, viz high quality and high priced polyester suiting and sarees, and then marshalled, its resources to produce that quality and sell it to a selected group of customers. It achieved unparalleled success in a short period of five years. A tobacco company when it realised that it cannot grow in its business because of government and other restrictions, adopted the strategy of diversification and went into hotel business and sea-food export business, as it knew its strength in marketing consumer goods. An engineering company, declared as a big house and so not eligible to expand in its own business, went into cement production as the government policy had been to encourage free entry into this core industry. On the other hand, many companies which failed to develop suitable strategies in the light of changed government policies, remained stagnant or fell sick.

In developing a strategy, a planner should look for synergistic effect. Synergy means that the combined effect of two or more co-operative acts is greater than the total effect, if the two acts were carried out independently. For example, if a large soap manufacturer with a nation wide net-work of distributors, takes up manufacture and sale of cosmetics, and it would be able to utilise fully its marketing facilities, which perhaps were only partially used so far ; accordingly, this would bring in more profits than if two separate companies were to carry on the manufacturing and the selling of soaps and cosmetics independently.

Proper Sequence and Timing of Efforts : The next step is to lay down a proper time schedule to introduce the product, to time advertising and sales promotion campaign, and for all related activities. It is emphasised

that various aspects of the strategy be correctly timed and executed in a proper sequence. There have been cases on record of companies which had developed sound new product strategies but which failed to reap the expected benefits, simply because they were either for ahead of their times or were too late in introducing their products.

Reappraisal and Adaptation : A strategy is essentially a response to external environmental factors. As some of these factors are vectorial or dynamic in nature, a strategy developed earlier, should be reappraised whenever any of these undergoes a drastic change. If actual results achieved are below expectations, the strategy must be modified and adapted to changed conditions.

III

POLICIES

While objectives provide the goals to be reached policies provide board guide-lines for all operating managers as to how these may be achieved. Generally, policies continue to provide guide-lines for a longer period than strategies which may have to be changed with changes in external environment. A policy may be defined as verbal, written or implied statement which is followed as a guide to action by managers and employees of an organisatian'. Policies, usually are broad in scope and are comprehensive, elastic and dynamic ; they may be taken as a code which points to the direction in which top management desires to channelise the energies of managers and others. Policies have been described as "the foundation of management in action"

Need for Policies : Policies constitute the philosophy of management, provide stability to the organisation, and instil a sense of confidence in the action of management amongst all members of the organisation.

Policies of an enterprise give meaning to its objectives :

Objectives are expressed in rather general terms and so may not have much significance for the rank and file of employees. It is the policies which translate them in concrete terms, as they supply precise directives to be followed in achieving the objectives. Thus, for example, a company may decide the objective of certain amount of gross sales for a particular period but its implication becomes clear only when the policy statement sass that 'It shall be the express policy of the company to establish as many retail outlets for its products as possible, to allocate funds for co-operative advertising, and to offer lowest competitive prices to the retailers'.

Policies save valuable time : Top management formulates a particular policy after considering all possible situations, which might arise in future in a particular area This policy decision, therefore, provides guide-lines to the lower level managers for repetitive action when decisions have to be taken in that area ; it thus avoids the necessity for frequent reference to higher managers for advice and thus saves valuable time all round.

Policies facilitate Delegation of Authority : Policy decisions facilitate delegation of authority which is so essential for the success of a large organisation. A delegator, who delegates authority and responsibility to his subordinate, is still accountable to his superior for all acts resulting from his delegated authority. Hence, in order to assist the delegatee in the desired use of the authority delegated to him, the delegator makes use of policies which guide the delegatee in determining what action to take and what will be within the limits of approved policies.

Policies ensure Uniformity of Action : When decisions are taken by a number of managers in an organisation, on a common problem, there are likely to be differences and even inconsistencies, between these decisions. This, obviously, is not desirable as it will tend to create discontent among those subordinates adversely affected. Policies, which provide broad guidelines, however, ensure that decisions made will be consistent, fair and in keeping with the interests and objectives of the organisation as a whole.

Policies are required in each area of management ; and a few examples of policies in certain functional areas are given below :

Finance : Policies as regards sources of funds and ratios between funds raised from these sources ; Policy regarding grant of credit to customers ; Criteria for selection of projects, Dividend policies, etc

Accounting : Policy for valuation of work-in-progress and finished goods, Depreciation Policy, Policy for treatment of deferred revenue expenditure, Policy for provision for doubtful debts etc ; Policy on current Replacement Costs vs. Historical basis, etc.

Costing : Policy for selecting the method of costing. Policy for selecting methods of allocating averheads, for issue price of raw materials, etc

Personnel : Policies for selection, promotion, discipline, dismissal, overtime, leave, holidays, lay off

Policy for dealing with Unions,
Policy for Wages, other monetary rewards and welfare facilities ; Provident Fund, retirement benefits, etc.

Marketing : Policy as regards treatment to customers,
Policy re Ethics in Advertising,
Policy re pricing of products, etc

General : Policy re social obligations eg. towards pollution, etc.

Management : Policy re relations with the Government, Public relations, etc..

Steps in implementation of Policies :

The main steps are :

(a) Communication of policies to all concerned, through proper channels ;
(b) Elucidation and interpretation, as required, in specific cases ;
(c) Translation of policies into plans and programmes ;
(d) Issue of executive instructions for observance ;
(e) Periodic checking as to how far and to what extent policies are being correctly followed ;

(f) Periodic review in the light of changing conditions, and

(g) Modification of policies, in the light of (f) above.

As a general rule, those who will be responsible for implementation, should also be associated with policy formulation, as far as practicable. This will go a long way in making policies realistic, and in giving executives a sense of belonging ; and their interest in implementation may be more active.

It should be remembered that, by itself, a policy possesses no force to produce results ; it represents a blue-print. It requires managerial action to implement a policy.

Procedures : A Procedure may be defined as a series of related tasks which make up a chronological sequence and an established way of performing the work. The chronological sequence is a distinguishing mark of a procedure.

A procedure lays down, when and who will carry out the work ; it represents the best manner of doing a job from the point of time, effort and money. An established procedure may, however, be changed because of changes in the external environment or within the organisation.

Methods : A method may be stated to be the manner of performing a task, giving adequate consideration to the objectives. facilities available, and the minimum expenditure of time, money and effort. In other words, a method deals with a task comprising of one step in a procedure. The course of action in accomplishing this task must help bring about the desired result, utilize the equipment available, and be within the limits outlined for time, money and effort

Relation between Policies, Procedures and Methods :

It is necessary to be well aware of their respective meanings and clearly understand main points of difference ; these relate to (1) scope, (2) degree of discretion, and (3) degree of stability.

Scope : Policies are broad in scope and they apply to the whole organisation. Procedures are often confined to a single department, as for example, purchase procedure for the Purchase Department or accounting procedure for the Accounts Department. A method is generally prescribed for a single task, or for a single person or at the most to a group of persons, and so its scope is very limited.

Degree of Discretion : As a policy serves only as a broad guide line, a manager implementing it has some degree of discretion in interpreting it. As far as a procedure is concerned, a manager has no discretion in interpreting it the must strictly follow it as long as it stands. Methods, however, are often left to supervisors or to operators themselves and so,

the latter have much greater discretion in fixing methods or in changing them. This is why methods of performing the same job may vary from supervisor to supervisor, and even from operator to operator, unless Industrial Engineering Department has laid down standard methods.

Degree of Stability :

Policies are, by their very nature, meant to ramain stable over a long period. They are changed only when the organisation's objectives change, or when external conditions undergo a drastic change and initiative for change in a policy lies only with top management. Procedures, though they are also expected to remain stable, may have to be modified or even altered after sometime ; in this respect, initiative for a change in a procedure lies with a departmental head when he feels the need for a change. He is, however, expected to consult and obtain the consent of other departmental heads who are likely to be affected by the proposed change Methods, however, may be more frequently changed by the operator himself on his own, or with the consent of his supervisor, as and when he thinks it necessary or advantageous.

IV

IMPORATANCE OF OBJECTIVES OF A BUSINESS ENTERPRISE

Every organisation exists to achieve a purpose or purposes which are referred to as its objectives. The process of planning discussed earlier, implies existence of objectives, and it is imperative to accomplish these objectives. In running a business enterprise, careful selection of objectives greatly helps top management in giving employees a sense of purpose and of direction which is so very essential for securing optimum results. In the absense of clearly defined objectives, subordinate managers may pursue subsidiary objectives unrelated or not directly related to those which top management has in mind. This is likely to lead to a wastage of energy, time, resources and money. On the other hand, if objectives have been clearly stated, they will serve as focal points for managers to concentrate their resources and efforts towards achieving them, and this, in turn, would enable top management to co ordinate successfully all related efforts and secure optimum results.

Importance of objectives :

1. Objectives embody basic ideas and fundamental theories as to what the organisation is trying to achieve ; this is necessary to give a meaning and direction to the work of the people associated with the organisation. In short, objectives may be regarded as the pole-star towards which all organisational efforts are directed.

2. Objectives clearly stated, serve to identify an organisation and to link it to the groups on which its existence depends. A business needs to emphasise its individuality and make itself known to its customers, employees, suppliers and dealers on whose support its existence depends

3. Objectives clearly defined, provide a basis for guiding, leading and directing mambers of an enterprise. These stand as the targets which members try to achieve together and progress towards them can be observed and may be used to influence further efforts. They also can serve as the centre around which executives can integrate and co-ordinate the efforts of managers themselves and of the managers their subordinates As detailed plans for all departments and all sections within the departments in an organisation are not possible nor desirable, there is considerable need for voluntary co-ordination, and this may be achieved largely through mutually recognised objectives.

4. Objectives help executives stimulate appropriate responses from their associates and subordinates and they further serve to provide

a sense of unity and harmony which are so essential for co-operative efforts. Thus, objectives go a long way in motivating accociates and subordinates.

5. Objectives provide a basis for control ; effective control is not possible without a clear idea of what the results should be. Objectives constitute the desired performance-goals and thereby facilitate self control and, if necessary, control by superiors.

PROFIT AS THE SOLE (?) OBJECTIVE OF BUSINESS

For a long time, businessmen had proclaimed that their sole object in carrying on their business was profit for themselves, and the public did not see anything wrong in it. It was much later that Adam Smith, provided a theoretical justification for profit.

With rapid development of manufacturing industry, and establishment of factories employing hundreds of workers, one section of the society, namely, the working class, discovered to their distress that industrialists, in their pursuit for profit and more profit, were taking full advantage of their weak bargaining position and were paying them very low wages and making them work for very long hours. With emergence of monopoly conditions in major industries, another class, nemely, consumers, saw a clear conflict between their interest and that of the monopolists Monopolists started taking advantage of their position and started charging higher prices and occasionally lowering quality of their product at the same time. Karl Marx was the first to give a bad name to profit. He asserted that "All capital (which is nothing but accumulation of profit or 'surplus value') is theft".

With establishment and growth of Public Limited Companies to carry on manufacturing and trading activities on a large scale, a new class of persons, namely, managers emerged. They had no share in the capital, were paid only salaries for their services and, normally had no share in the profits. And yet, they also continued to pursue the same policies, and in fact, with greater vigour, to generate more and more profit, with complete disregard for the interests of other sections of the society It gradually began to be realised that pursuit of profit was inevitably leading to many social evils eg.- employment of children and women in factories, exploitation of workers and of consumers, pollution of environment etc Social thinkers, and philanthropists started criticising this ruthless pursuit of profit and some enlightened industrialist privately confessed even to a felling of guilt for what was happening. But this did not change the situation and there were frequent and bitter criticisms against profit and a general attituce of contempt and even hatred, against industrialists and businessmen for earning huge profits, at the expense of consumers, workers and society as a whole.

It was, however, not an industrialist, but a noted management consultant, Peter Drucker, who came forward to clarify correct role of profit. In his book "The Practice of Management" published in 1955, he stated that profit serves three purposes :

1. Profit is the "risk premium" that covers the cost of staying in business—replacement, obsolescence, market risk and uncertainty.
2. It ensures the supply of future capital for modernisation, expansion, innovation and growth.
3. It measures the net effectiveness of a business's effort and is the ultimate test of business performance, and of the efficiency of its management

Drucker thus emphasized that profit is not an end in itself, but is only a means to ultimate survival and growth of a business. It is, therefore, not a matter of choice whether to earn profit or not ; even if an Angel were to be Managing Director of a business, he too will have to earn profit in order to survive and grow. The object of business is, accordingly, not to make maximum but only sufficient, profit to survive and grow. Gradually, this view of profit began to attract support from industrialists and others. For example, Henry-Ford (Sr.) declared in his autobiography that "mere money-chasing is not business" ; similarly, L. Urwick, a management expert stated that, "Earning of profit cannot be the objectives of a business any more than eating is the objective of living."

Profit as only One of the Objectives :

Having explained the correct role of profit as a means and not an end in itself, Drucker pointed out that a business has a multiplicity of objectives, namely, (1) Survival, (2) Growth and (3) Social Responsibilities or Obligations.

Survival :

In the initial period of its life, a business cannot expect any profit and it has, therefore, to concentrate its efforts on ensuring its survival. During this period, emphasis is not on earning profit but on minimising losses.

Growth :

Once survival is assured, a business must direct its attention to growth. In a competitive world, it is necessary to grow in order to survive. Growth involves diversification, modernisation and innovation which require capital. The most reliable source of supply of this capital is accumulated profits. Thus, profit is again only a means to an end.

Social Responsibilities :

Drucker was also the first to declare that a business should voluntarily accept social responsibilities and spell them out. According to him, business should recognise its responsibilities towards (1) The Customer, (2) The Employees, (3) The Community, and (4) Society as a whole.

The Customer : According to Drucker, the first function of a business is to create the customer, because without the customer no business can survive. A business should, therefore, assure its customers a product of a reasonable quality at a fair price (not a black market price), uninterrupted supply (not creation an-artificial scarcity by hoarding) and prompt after sales service. Further, it should be truthful in its advertising and avoid vulgarity in it.

The Employees : If the customer provides the business, it is the employees who make it possible for a business to make profit. A business, therefore, should pay fair wages, and a share in profits ; ensure safety at work and provide reasonable security of employment ; recognise their union, treat them as human beings ; and offer them reasonable opporfunities for participation management.

The Community: Activities of a business affect the people living in its vicinity. It should, therefore prove itself as a good neighbour and participate in and contribute to the social activities of the community. This responsibility to the community has a great relevance in our country to-day ; with the spread of industries in rural areas, industrial units should provide such basic amenities as pure drinking water, primary schooling primary health facilities to the people in the localities at which they are located ; further, they should lend their organisational and managerial facilities for constructive social activities, for setting up mini units for manufacturing and selling suitable parts or products. A welcome beginning seems to have been made by some companies in this respect, by adopting villages for their all round development.

Society as a whole : It has been clearly established that modern industry has created directly and indirectly many serious hazards to humanity The automobile industry whose cars have been continuously releasing carbon monoxide in to the atmosphere has led to an increase in incidence of cancer, and similar also is the case with the cigarette industry The chemical, fertilizer, paper and allied industries have polluted the waters of rivers and streams flowing near by, have not only made their waters undrinkable, but have also harmed the fish and other aquatic animals and plants Atomic electricity plants pose the danger of radiation. These dangers threaten not one or the other section but the society as a whole. A business, however must remember that its very survival depends upon the survival of the society itself and so it must do as much as possible to minimise and also prevent, pollution and such other environmental hazards

Nature of Conflict between the Ecomomic and Social Objectives : Some advocates of free enterprise argue that a business has only the economic objective of making optimum utilisation of resources ; and to require it to

accept social obligations is to divert its scare resources managerial & others, from their primary responsibility, This might lead to losses and a losing or bankrupt business cannot discharge any obligations, economic or social.

Others, however, forcefully point out that it is in their own long-term interests of survival and prosperity that they should voluntantly accept their social obligations. Further, they also suggest that business should aim at profits sufficient for survival and growth and not at maximum profits, and again, they should spend a part of their profits in order to discharge their social responsibilities.

In short the conflict between the two objectives appears to be only apparent and not real ; it is there only perhaps in the short term but, in the long term, a business can, provided there as a will, reconcile its objectives of sufficient profit with its social obligations.

Social responsibilities of business : Indian perspective :

The phrase "social responsibilities of business" is comparatively newly coined, in the Indian context.

(a) The declaration, at the 1965 seminar in New Delhi, under the auspices of India International Centre and Gandhian Institute of Studies, sought to correlate the concept of social responsibilities with Gandhian doctrine of "trusteeship", by imposing "inherent responsibility of business enterprise to its consumers, workers, shareholders and the community and the mutual responsibilities of these to one another".

(b) The Sachar Committee, set up by the Union Government in 1977, observed, *inter alia*, "Every company, apart from justifying itself on the test of economic viability, will have to pass the test of a socially responsible entity. "Furthermore, Sachar Committee outlines its concept of social responsibility, primarily in these directions :

(i) "Opennes in corporate affairs" for what it calls "responsible corporate behaviour" ;

(ii) Information and disclosure for the benefit of various groups, like shareholders, creditors, workers and the community ; and

(iii Publication of a "Social Report every year, to "indicate and quantity in as precise and clear terms as passible, the various activities relating to the social responsibility aspects, which have been carried out by the company in the previous year".

Indian companies will indeed have to travel a long way for realisation of these landable objectives, but Tata's efforts in this direction, have been pioneering and exemplary.

Objectives for Operating Managers : Drucker was also the first to point out the objectives of survival, growth, profits and social obligations,

though very useful for top management, are unable to offer any clear guidance to middle level managers or operating managers One reason is that some of the managers may not agree with the most important objective of profit and so may not co-operate with the top management. Another reason is that each of the operating managers contributes to profits only indirectly and even that contribution cannot be precisely measured Drucker therefore, suggested that following concrete and meaningful objectives for them : (1) Market-standing, (2) Innovation, (3) Productivity, (4) Physical resources. (5) Financial resources, (6) Manager Performance and Development, and (7) Worker Performance and Attitude.

1 *Market-standing* : This objective, that is a certain percentage share of the market is more meaningful to a Marketing Manager than a certain percentage of profit on sales. He knows that in order to capture the required share of the market he will have to increase sales in the existing market, develop new markets for his product, discover new uses of his present products etc He may, therefore, be given concrete objectives in terms of a definite share of the market and be held responsible for achieving it

2. *Innovation* : According to Drucker,

"A business enterprise, its structure and organisation, the way in which it integrates knowledge into work and work into performance, are areas of major innovative need and innovative opportunity Innovation is not a technical term ; it is an economic and social term Its criterion is not science on technology but a change in economic or social environment, a change in the behavior of people as producers, consumers or citizens An established company which, in an age demanding innovation, is not capable of innovation, is doomed to decline and extinction ; and a management which does not know how to manage innovation, is incompetent and unequal to its task. Managing innovation will increasing become a challenge to management".

3. *Productivity* ; It was a universal practice in the past to fix a certain quantitative target of output for a production manager. Attainment of that target, however, did not necessarily mean higher efficiency because it could, be attained at the cost of quality, or at a higher cost per unit Productivity is the only yard-stick which measures competence of management and allows meaningful comparisons between different enterprises in the same industry. Though concepts of Productivity of machines and of individual workers have been developed, the concept which can measure overall productivity, according to Drucker, is the "Contributed value". He has defined it as the difference between gross revenues received by an enterprise from sale of its products or services and amounts paid out by it for purchase of raw materials and for services rendered by outside suppliers ; in other

words, it includes cost of all the efforts of the business and the entire reward received for these efforts. This concept makes a rational analysis of productivity possible and facilitates setting goals and methods for its improvement.

4 *Physical Resources :* In the past, there was a reasonable assurance say, about supply of industrial raw-materials and so, the purchase manager's objective was efficient and economical purchase of required raw-materials to ensure continuity of productiou and to avoid stock-out situation. Since the last few years, however, materials like curde oil, copper, wood pulp for paper, various petro-chemicals etc. have become scarce and their prices have become prohibitive. A purchase manager, therefore, may well be given the objective of locating substitute materials or developing alternative sources of reliable supply for ensuring continuity and stability of production.

5. *Financial Resources :* A business needs funds from time to time, to replace existing machinery, to buy more advanced technology, to take up a research and development programme, or to finance an advertising compaign A finance manager should be aware of relative merits of different sources of funds and should have plans for raising required funds from the most suitable source s). He should also be able to develop sound policies for pricing depreciation, dividend, etc. as these determine ability or otherwise to raise funds internally.

6. *Manager Perfomance and Development :* The objectives discussed so far may appear as very remote to, say, a personnel manager and yet, he must be given clear objectives against which his performance may be measured. However, developing techniques for performance appraisal of individual managers, training programmes for developing future Managers to replace the existing managers as and when they leave the organisation, or allied matters, would be meaningful and attainable for him.

7. *Worker Performance and Attitude :* This is a most difficult area for setting concrete objectives, and yet, worker performance and attitude are vital for prosperity and even survival of an organisation, in the long run This is why personnel managers have started making use of statistical information about labour turnover, absenteeism, accidents, grievances, suggestions etc, to measure attitude of workers towards their work and towards management. Attitude Surveys have been condncted to ascertain attitude of workers on specific issues. The knowledge that may be gained from all these, should prove useful in formulating

personnel policies and practices to bring about a favourable change in the attitude of workers and an improvement in their performance. Line managers may be given objectives in these areas and could be usefully judged by their performance in bringing about favourable changes in the attitude and performance of their subordinates.

V

MANAGEMENT BY OBJECTIVES (M. B. O.)

Traditional managers believed that it was their exclusive privilege to determine objectives and goals of their organisation, and to direct and coordinate efforts of all other managers & employees to achieve these objectives. It was, however, gradually realised that these goals were rarely achieved and actual results of often fell much short of the goals Drucker was perhaps the first to suspect that this failure was possibly due to inadequate co operation of subordinate managers, as they did not regard the organisational goals as their personal goals. He, therefore, suggested that "what business needs is a principle of management that will give full scope to individual strength and responsibility and at the same time give common direction of vision and effort, establish team work and harmonise the goals of the individual with the common weal This, in fact, is the principle of "Management by Objectives".

It was in 1955 that Drucker suggested this principle which required commitment of all members to the objectives of the organisations A few years later, in 1961, Edward Shleh read his paper, 'Management by Results' before the 12th International Management Conference, for which he was awarded a gold medal. In his paper, Shleh suggested close integration of individual goals with those of the organisation The concept of MBO, however, was largely neglected for the next few years. In 1969, John Humble, a British management consultant, published his book, "Management by Objectives", in which he explained the underlying principles and outlined a scheme for implementation of MBO.

According to George Odiorne, MBO is "a process whereby the superior and the subordinate managers of an enterprise jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members".

MBO technique: In simple terms, this is an approach to effective management through achievement of goals, agreed upon and accepted by, the individuals involved. The main elements of the MBO Technique, as suggested by Humble, are briefly as follows !

1. A critical review and restatment of the company's strategic plans, objectives and goals.
2. The goals to be set at all levels, must be joint and agreed ones
3. Clarifying, with each manager, key results areas (KRA) and performance standards whice he must achieve in line with his units and company's objectives, and securing his contributions and commitment to these

objectives individually and as a team. It would be obvious that key result areas will be different for each individual manager. The more important of these areas are : 1) Market Share, 2) Foreign Exchange Earning, 3) A definite rate of return after tax on New Projects, 4) Reduction in Cost, 5) New Product Development 6) Management Training and Development, 7) Worker Productivity and Attitude, 8) Modernisation of Plant, 9) Industrial Peace etc.

4. Developing, with each manager, a job improvement plan for his measurable contribution to the sectional and Company Plans.

5. Providing suitable conditions for the achievement of key results. The more important of these conditions are :

   (i) An organisation structure which gives a manager maximum freedom and flexibility in operation.

   (ii) Management control information in a form and at a frequency which would facilitate more effective self control, better and quicker decisions.

6. Holding periodic performance reviews with each manager to measure and discuss progress towards the goals and standards ; and carrying out personal reviews to identify potentials for advancement to higher managerial positions.

7. Development on the basis of performance reviews of management training plans, to help each manager to build on his strength, to overcome his weaknesses, and to accept responsibility for self development.

8. Strengthening a manager's motivation by effective selection, adequate salary and rational promotional or succession plans.

Benefits of MBO for the Organisation :

Humble who had been associated, as a Management Consultant, in introducing and implementing the MBO Programme in a number of companies in the UK, claimed that such companies reaped a number of benefits. The more important of these are :

1) It leads to a concentration of the efforts of managers on really important and profit influencing tasks instead of on tasks which could little impact on overall results

2) It facilitates identification of problems which have been hitherto preventing high performance, and development of plans to solve those problems.

3) It brings about a visible improvement in moral and sense of purpose of managers because of their involvement in setting goals and in achieving them.

4) It helps to discover managers who have potential for growth.

5) It helps to formulate better management training programmes based on performance reviews.
6) It leads to improvement in better management controls and better performance standards because of their willing acceptance by all managers.
7) It helps to ensure a balance between innovation, flexibility, and continuity necessary for effective work.

Advocates of Management by objectives claim that it helps not only the companies which adopt it but also all managers working in those companies. The reason is that it is able to satisfy some of basic urges of man, such as the desire to improve one's performance, to know how one is getting on in one's job, to be recognised by others, to be able to participate in planning one's work, etc. As a result, managers enjoy the following benefits :

1. It provides greater opportunities to make a personal contribution and to accept more responsibility.
2. It leads to better interpersonal relations through involvement in task forces to solve problems outside one's own area of authority and responsibility.
3. It means less frustration as company objectives and limits on their own authority are made known to them.
4. It brings about better and more purposeful communication with superiors, colleagues and subordinates.
5. It offers greater opportunities for personal growth, as one comes to know one's own strength as well as weakness, and as the company plans training more systematically.
6. Recognition of achievement by himself and appreciation by superiors, because of clear performance standards and better management control, are made possible.
7. It leads to more equitable material rewards and promotions, as there is hardly any scope for favouritism or discrimination.

MBO as a Philosophy of Management : The foregoing will make it clear that MBO is not only a technique but is also a philosophy of management. It may be called Democratic Participative Management, which stands in contrast to the traditional philosophy of management, under which there is a rigid superior-subordinate relationship between top management and all other managers This implies that under the traditional system, goals and standards are set by top management which also provides for comprehensive controls and decides on rewards.

In the MBO, on the other hand, the goals and standards are fixed after discussion with individual managers, which secures integration of

organisational with individual goals. Superior manager assume supportive and collaborative responsibilities for performance of subordinates. Instead of close supervision and external control, subordinates are allowed to a large degree, to exercise self direction and self control. It also provides for extensive participation by all managers in all matters of importance for the organisation. All this provides scope for development of creative abilities of individuals which are rarely tapped under the traditional system.

MBO in the Context of Indian Organisations :

It was around 1976 that the National Productivity Council set uy a team of experts to study the possibility of introducing MBO in Indian Industries, in the private as well as the public sector. This team visited a number of companies in different industries in the country and collected case histories of a textile mill, a cigarette factory, a chemical firm, a light engineering unit, and a company marketing fertilizers and animal feed-stocks. On the basis of its study, the team highlighted importance of two pre-requisites for success of the MBO Programme. One is firm commitment of top management to the philosophy ; it must then get its senior executives involves in it Introduction of MBO requires a basic change in attitudes of all managers, and their willingness to adjust to organisational changes It is, however, necessary to beak down initial resistance to change and to unfreeze their attitude. A popular method adopted for this purpose has been to arrange exposure seminars and group discussions with help and guidance from outside experts.

Another need for effective implementation of MBO is for an outside adviser in the initial period, till one of the senior executives of the company is able to take over his position. The MBO Adviser has to be a person who has a general knowledge about all jobs in the organisation, and more important, he must be a person of integrity to command the confidence of all and be acceptable to them In the initial period there are bound to be occasions of differences, sometimes sharp, between top management and individual managers, as regards goals, standards, what is fair, what must be given priority and so on It is then the responsibility of the Adviser to bring the two sides together and to make them see broader interests of the roganisation, and what needs to be done to promote organisational interests. The success of MBO, therefore, greatly depends upon the availability of such an Adviser.

Indian organisations which introduced MBO, are in the early stages of applying it ; the undernoted industries have either partially introduced MBO or are considering its introduction.

(i) Peico Electronics Electricals Ltd. (Philips India). Bombay and Calcutta. (ii) Glaxo Laboratories Ltd , Bombay, (iii) Hindusthan Lever Ltd., Bombay. (iv) Indian Tobacco Co Ltd., Calcutta. (v) Imperial Chemical Industies (P) Ltd., Calcutta. (vi) Union Carbide of India Ltd , Calcutta (vii) Indian Aluminium Co Ltd , Alwaye. (viii) Madura Mills Ltd., Madurai, etc.

There is at present, almost unlimited scope for experimenting with MBO in public sector enterprises One reason is that here there are no owner managers and all persons, from managing director down to junior managers, are employees ; therefore, there need be no conflict of interests between top management and other managers Secondly, a typical public sector enterprise is usually large in size, and accordingly, it is possible to start this technique in one department or one section, before gradually adopting it for the entire organisation.

Thirdly, top management in public sector enterprises will hopefully be men with confidence in democracy and must therefore be willing to acapt democratic practices, intercut in MBO philosophy.

Limitations of MBO :

Despite its many advantages, it has certain limitations, such as the following :

(a) In a scheme of MBO, leadership quality and contribution do not find a central place ; the leader (with his team), of course, suggests the goals, but these are open for discussion and debate, Rational attitudes intelligent consensus are often a casualty ;

(b) MBO tends to emphasise a particular type of democratic approach in management process, which may not always be conductive for optimum results ;

(c) Where personal relationship between a superior and his subordinates are poor, MBO'S participative approach will often fail to work ;

(d) MBO is time consuming and it often taxes the patience of those responsible for its implementation.

STUDY NOTE : II

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. "Continuous changes in environmental conditions make planning essential". Discuss fully.

2. Define policies and explain why a business organisation needs policies. Also, discuss different types of policies.

3. Define strategy and explain the steps in its formulation.

4. Why must a business earn profit ? What should be the social obligations of business and why ?

5. "MBO is both a technique as well as a philosophy of management". Discuss fully and critically.

6. Write notes on the following :

   (1) Forecasting. (2) Hierarchy of Plans.

   (3) Policies, Procedures and Methods.

   (4) Advantages and limitations of planning.

7. What are the planning parameters ? Suggest certain universal steps involved in the planning process.

8. (a) Write a critical essay on M.B.O. in the India context

   (b) Discuss the limitations, if any, M.B.O.

9. Discuss the relationship between a Plan and a Budget.

10. Suggest some definitions of planning. Why must a business plan ?

STUDY NOTE : 3

I

ORGANISATION

GENERAL

Need for organisation : Organisation grows essentially out of the need for co-operation. The primitive man must have quickly realised that in order to protect himself from external dangers, and to satisfy his basic needs, he needed co-operation from his fellow-men.

Businessmen started feeling the need for an organisation after Industrial Revolution, which made large-scale production possible with the help of power driven machinery. With the emergence of the jointstock company, it became easier to start manufacturing and selling activities on a large scale. This made it necessary to bring together a large number of persons to carry on various manufacturing processes and other supporting activities It then became obvious that if all these men were to achieve the common objective, they must be properly organised ; and, this naturally became the responsibility of the manager

Defination of organisation : Mc Farland has defined an organisation as "an identifiable group of persons contributing their efforts towards the attainment of goals". This short definition of organisation brings out its three essential characteristics. The first is self identification. Existence of a group is another characteristic of an organisation, for organisations are essentially co operative enterprises. The third characteristic is emphasis on goals and objectives that an organisation must attain According to Brech, Organisation "is the framework for carrying out the responsibilities of management, for delegation of responsibilities, for co-ordination of activities or operations, for motivation members"

The process of setting up an organisation structure, essentially involves the following :

(1) Listing all activities necessary to accomplish the objectives ;
(2) Grouping of activities into a limited number of departments ;
(3) Designating the head of each group of department ;
(4) Determining the nature and the extent of the authority of each head ; and
(5) Prescribing the nature of relationship between each of them
(6) Ensuring that channels of communication are well laid out
(7) Sustaining growth and creativity of the enterprise.

In short, the organisation structure, so evolved, will state who is authorized to take what decisions and to what extent ; who performs what

duties, and who is superior to whom. It clarifies all relationships and provides a frame-work within which all managerial activities take place and grow.

Developing a suitable Organisation Structure ; Throughout the nineteenth century and even as late as 1950's, there was hardly any systematic method available for designing and developing a suitable Organisation Structure Managers, therefore, had to look to the models of their successful competitors and use the "trial and error" method for developing a suitable structure for their organisations, with some guidance perhaps, from the principles which Henri Fayol and other classical management writers had formulated. It was in about 1955 that Peter Drucker suggested three specific ways to find out what kind of structure is needed to attain objectives of a specific business ; these are : (1) Activities Analysis, (2) Decision Analysis, and (3) Relations Analysis,

Activities Analysis : Traditional authorities assumed that a business had a set of typical and common functions which could be applied everywhere without prior analysis. Experience, however, showed that a particular manufacturing business may not need all of them or may need some other functions ; for example, a business manufacturing women's dresses will have designing as the most important function, and paper mill will have long range forest development as an equally important function as manufacturing It is, therefore, necessary to make a specific analysis of the activities of a business before designing its organisation structure.

Once the activities have been identified and listed in the order of their importance, the next step is to divide and subdivide the work into smaller homogeneous units, each of which can be assigned to a competent individual Thus a managing director of a company who cannot obviously perform all activities, may divide his work into a number of activities, and appoint a manager for each of these groups. Each departmental manager may subdivide his work into sections and appoint a supervisor in charge of each section In short, in devising an organisation structure, it is essential to divide all work into manageable units.

Decisions Analysis : Decisions may be unprogrammed e g. off the cuff, a product of empirical wisdom or programmed ; a programmed decision is a systematised management step, pre determined by rules or procedure. Such decisions are preceded by a common set of logical analyses ;

First : There must be a clear goal set through prior planning ;

Secondly : Out of various alternatives passing for selection, avenues must be developed for reaching the goal ;

Thirdly : Each feasible alternative should be evaluated carefully ;

Fourthly : Taking plus and minus points of each alternative, the decision maker must make the optimum selection, in the circumtances.

Lastly : The decision maker should include a suitable time-variables in his computations, depending on whether the decision is a short-term, middle-term or long term one.

The next step is (a) to identify major decisions needed to secure performance necessary for achieving the objectives, and (b) to classify these decision according to kind and character.

Drucker suggested four criteria to determine nature of business decisions : (1) Degree of Futurity, (2) Impact (3) Qualitative Factors involved and (4) Uniqueness or Periodicity

Degree of Futurity : A decision which commits an organisation for a long period, for example, a decision to set up a new factory, or to introduce a new product, is one which commits the organisation for a long period and so it must be taken by top management. On the other hand, a decision to purchase raw materials worth even a few lakhs of rupees, commits the organisation to a short period and so it may well be taken by the middle level manager, subject to availability of funds,

Impact : If a decision affects only one function, it is of lesser importance and can be taken at the lower level ; if, however, a decision affects more than one function, or the whole organisation, it is of a higher order and should be taken at a higher level. For example, the decision to change the basis of allocation of overheads to different products, affects not only accounts department but also other departments and so it should be taken at a high level. On the other hand, the decision to change the method of performing a job, affects anly the person performing that job and so it could be taken by him or at the most by his superior.

Qualitative Factors Involved : Qualitative factors include such matters as certain principles of conducting business, or certain ethical values to which top management has committed itself. A decision which involves any of these, although its monetary implication may not be high, is an important decision and so it should be taken at a high level.

Uniqueness or Periodicity : If a decision is a unique one, in the sense that it will be taken say, only once in the life-time of an organisation, it is of great significance and so it must be taken by top management. On the other hand, decisions which have to be taken frequently, may well be taken at a lower level.

In short, it is necessary to analyse all decision and establish their relative importance, as it will then be easier to determine the levels at which different decisions should be taken.

Relations Analysis : The third step in the analysis for the kind of structure needed, is the analysis of relations. This requires a study of, with whom a manager in charge of an activity will have to work, what contribution he will have to make to managers in charge of other activities, and what contributions he will require from other managers.

Traditionally, a manager's job was defined only in terms of the activity he headed, that is, in terms of relation with lower level managers ; this, however, is not adequate. It is also necessary to analyse the upward relationship which involves defining the contribution his activity has to make to the larger unit of which he is a part. Finally, it is also important to analyse side relations which involves a suitable analysis of the contribution a manager has to make to other managers of the enterprise. Often, this contribution may be very important to the success of an organisation for, usually there are three types of relations viz : line, staff and functional, each with its separate roles.

II

PRINCIPLES OF ORGANISATION

There are many accepted Principles of Organisation However, a study of the working of organisations in varied fields over a period, enabled management writers to formulate a number of principles of organisation, the more important of which, are briefly indicated here :

1. *Scalar Principle :* An organisation structure should consist of levels of authority, arranged in a hierarchy, from managing director at the top to supervisors at the lowest level. Scalar principle states that these levels represent gradation of distributed authority, each successive level downward representing a decreasing amount and scope of authority and often a different kind of authority. Consequently, position holders at each such level have a lower status.

   This principle is an important concept for it throws light on the way in which the different parts of an organisation are created and held together. It also plays an important role in communication by providing the framework for the transmission of authority in the organisation

   It was on this principle that the ancient Roman Catholic Church and the Roman Army were stated to have been organised, and it was claimed that their growth and success were to some extent, due to soundness of their structure It is no wonder, therefore, that this principle was almost universally adopted in all fields all these years and is still continuing, though with slight modifications.

   In the organisation structure based on this principle, positions of authority on the different levels are held together by a chain of command, through which alone authority and order pass down to the next lower level. This chain also constitutes the official channel of communication through which alone information down and up must flow.

   If, in an organisation, there are two such parallel chains of command and communication, these is likely to be considerable delay in receipt of Information when two subordinates, at the same levnl down below in the two chains, are involved in carrying out an urgent job. To avoid this, the concept of the 'Gang Plank' has been suggested ; it allows the two subordinates to meet directly and settle the problem, on condition that they

immediately inform their superiors as to what they have committed themselves, in order to avoid embarrassment or confusion for the heads of their respective chains.

2 *Principle of Departmentation :* This principle refers to the particular grouping of both persons and functions within an organisation. It is the process by which an organisation expands horizontally and it gives rise to work-units each of which is manageable by a single individual It also makes it possible to appoint a specially qualified and experienced person in charge of each such unit and to allow him to specialise still further. This gives the organisation all the benefits of specialisation.

The basis of departmentation and the criteria for adopting a particular type of departmentation will be discussed later, in this Study Note.

3 *Unity of Command* : This requires that for any action whatever, an employee should receive orders from one superior and that he should be responsible for carrying out these orders to that superior only and to no one else When to superiors begin to exercise authority over the same person or department, dual command comes into play in violation of the principle of unity of command. Peristent violations lead to undesirable consequences for the subordinate who is subjected to dual command, for his immediate superior who is being by-passed, for the superior who violates the principle, and as a result, for the entire organisation.

Inspite of such serious consequences, the principle is often violated in practice for different reasons. One is, that the superior may think that his immediate subordinate is not competent enough and so he is being by passed ; a better solution, however, would be to get a replacement for such a subordinate and not to by pass him as long he continues in his position Another reason is, that in an emergency, one cannot afford to observe normal rules ; the answer to this is that an emergency should occur once in a while and not frequently. A parctical way to stop a superior from violating this rule is to require him to report to his subordinate as to what he has done every time he by-passes his subordinate

4. *Principles of Span of Control ;* This principle refers to the number of subordinates for whose activities an executive should be held responsible. It has been generally experienced that larger the number of subordinates reporting directly to an executive, the more difficult is it for him to effectively supervise and coordinate

their activities. Among factors determining span of control, are (i) nature of activities involved (ii) ability of the superior and (iii) nature and ability of subordinates.

However, different authorities suggested different numbers such as 5, 7, 8 as the maximum number of subordinate to be supervised, without giving any reason. It was a French Management Consultant, V. A. Graicunas, who made an original study of the organisation structure and reported his results in 1933. According to him, supervision of subordinates involves three kinds of relationships, namely (1) Direct Single Relationships, (2) Direct Group Relationships, and (3) Cross Relationships ; further total number of relationships grows in geometrical ratio, every time a new subordinate is added. He also gave a formula to calculate total number of relationships for a given number of subordinates. This formula is $R = n (2^{n-1} + n - 1)$, where R stands for total number of relationships, and n for number of subordinates reporting directly to a senior. Thus, for two subordinates, the number of relationship is 6 ; for four it is 44 ; for six, it is 222 ; for ten, it is 5210. He, therefore, came to the conclusion that as supervision requires a span of attention, and as the span of attention of an average executive is limithd, number of subordinates he should be called upon to supervise, should also be limited

Supervision also involves a span of emotional stability and this being generally limited, the span of supervision should be resonable and not too large Graicunas thus concluded that, while it is not feasible to fix a definite number of subordinates as an ideal number, this number depends on the abilities of the superior himself, that is, his span of attention, and of emotional stability, as well the time available to him to help and guide his subordinates Finally the abilities of the subordinates, as well as the nature of work they perform, also tend to limit the span of supervision In short, number of subordinates should be resonably small to ensure effective supervision and control, and the actual number, in a particular case, would be determined by the factors involved.

Graicunas' formula—Usefulness :

(a) It dramatises complexity and difficulty of wider spans ;

(b) It reminds managers of the wisdom of sticking to narrower spans.

Limitations : These include—

(i) Its mathematical precision is debatable ; relationships and/or responsibilities may theoretically increase with number of subordinates but may not, in practice, follow a precise formula.

(ii) Direct group relationships may be far-fetched.

(iii) The main problem is not the number of relationships but their frequency and the volume of stress and strain they generate.

(iv) Actual factors which determine the span have been ignored.

(v) The formula does not apply in cases of cross relationships between line and staff organisations of a big enterprise.

5. *Principle of Balance :* This Principle requires that each portion and function of an enterprise should operate with equal effectiveness in making its allotted contribution to the total purpose. The problem of balance arises from the desire to establish a large number of units to take advantage of specialisation. A large number of units, however, gives rise to problems of timing, co ordinating and integrating work sequences and may sometimes adversely effect benefits of specialisation. This, therefore, imposes a responsibility on top management to ensure that the vertical and horizontal dimensions—are in reasonably balanced When a business is growing, it may be necessary to create, new departments or to add one more level. There may, however, be strong forces which compel top management to go too far in either direction The result is that lines of communication are unduly lengthened and costs are increased. Care should, therefore, be taken to see that the organisation structure does not become unduly tall or flat and to ensure that its dimensions are in a reasonable balance.

6. *Principle of Simplicity* : Modern business organisations which are large in size and complex in nature, may not, at first sight, find the principle of simplicity an appealing one. Simplicity is, however, a relative concept ; it only means that the structure should be the simplest possible one and yet it should provide the organisation with economical and effective means for accomplishing its objectives. Inspite of its apparent difficulties, simplicity should be a basic objective, as it means economy of effort ; it also helps to minimise costs and to reduce difficulties which arise because of poor communications due to complexity of the organisation structure.

7. *Principle of Continuity* : According to L. Urwick, a noted British Management Authority, the top executive of a business must not

only have a design for his organisation for the present but he must also have a plan of organisation for the future. This is because corporate business organisations have a long span of life compared to the individuals who are associated with them at any particular point of time. The organisation structure should, therefore, be such as to provide not only for activities immediately necessary to secure the objectives but also for continuation of such activities and addition of new activities in the foreseable future

Urwick's Ten Principles of Organisation :

Lyndall Urwick propounded ten principles of Organisation and these, briefly, may be stated as follows :

Principle of Objectives, Specialisation Co-ordination. Authority, Responsibility. Definition Correspondence, Span of Control, Balance and Continuity.

(Further details may be looked up from a text-book)

Formal Organisation ; Classical management writers looked upon organising as an engineering process and so, the principles of organisation which they formulated, were greatly influenced by principles of engineering. The organisation structure based on these principles has, therefore, been labelled as 'Formal', 'Mechanistic' or 'Static' ; these writers have been criticized, for they completely ignored role of human beings who work in these organisations, and required them to behave as if they were parts of a machine

Informal Organisation : Informal organisation is a kind of group relationship which grow outside the formal organisation structure. Existence of informal organisation, within a formal unit was observed by Prof. Elton Mayo, who conducted experiments, now famous as Hawthorne Experiments, at the Hawthorne Plant of the Western Electric Company at Chicago, U S A , (Study Note 1) ; he also noted that the informal organisation had considerable influence on the productivity of men working in the organisation Since then, a number of social scientists have studied and observed the working of informal groups and as a result, a tentative theory about how and why informal groups are formed, and how they affect the working of a formal organisation, has been formulated.

How Informal Groups are Formed : Informal social groups develop spontaneously in an organisation Human beings are essentially social beings and so they spontaneously develop social relationships and associations, which are formed as the work together face to face, in work situations ; for example, a number of draftsmen working together

may form an informal group ; again, similarity of work, though performed in different departments, as in the case of typist girls working in different departments, may form an informal group of the their own. Similarly, common language, common interests, residence in the same locality, may lead men working in different departments, to form informal groups of their own within the formal organisation.

Why Informal Groups are Formed : One reason why an informal group is formed is that membership of such a group gives a member a social satisfaction which is not possible in a formal organisation but which is one of the basic urges of human nature. Secondly, when an employee needs some help on the job, he normally does not go to his formal superior, but goes to the leader or a member of his informal group. Thirdly, when he needs help in his personal difficulties and problems, he seeks the help of a member of his informal group. Finally, whenever there are work pressures or threats from his supervisor or higher management he usually turns to the informal group for protection and support.

Adverse Effects of Informal Groups on Management : Managers have bitterly complained that informal groups adversely affect efficiency of the organisation and create problems. One complaint is that informal groups set up their own standards of performance which are invariably lower than those set up by management ; they also use social pressure against members or non-members who produce above their unofficial standards ; secondly, informal groups generally resist charges proposed by management for higher efficiency or even for survival in competitive market ; thirdly, they stand in the way of enforcing discipline ; further they suppress talents of the individuals.

Favourable Effects of Informal Groups : Social scientists admit that there is an element of truth in these complaints, but they point out that these may be largely due to the manner which managers handle informal groups. They go a step further and claim, on the basis of their observations of the working of many informal groups, that if these groups are skilfully handled, they may be of some assistance to managers.

One of the advantages claimed is that communication can be much faster through their Grapevine than through formal channels of communication ; secondly, leader of such a group can solve some of his manager's headaches, such as absenteeism, late coming, etc., without bothering the supervisor ; thirdly, properly handled and motivated, an informal group can achieve much better results than a formal group According to Chester Barnard, these are an important "means of maintaning the personality of the individuals against certain effects of formal organisations which tend to disintegrate personality".

How a Manager should handle Informal Groups : A manager should remember that informal groups develop spontaneously in an organisation, and so they can neither be prevented nor suppresed He must, therefore, first learn to accept and live with such groups. Further, he should develop the skill to spot the leader and to ascertain real problems and difficulties of the group ; he should be sympathetic and honestly try to solve some of their problems. In this way, he can secure their confidence with his integrity and genuine desire to help. Onec this is achieved, informal groups will willingly work with him rather than against him.

A manager, therefore, faces a dilemma. On the one hand, groups comprising informal organisation have to be allowed to pursue their identity ; but, on the other, their autonomy has to be restricted to such an extent that their work conforms. at least, to the common goal. And, it is useful to remember that, in practice, there is hardly any organisation which is wholly formal or informal.

III

DEPARTMENTATION

The first step in designing an organisation structure is to divide the whole work into a number of jobs to ensure that no important activity is left out The next step is to bring together homogeneous jobs into groups and to decide their relation to each other This process is known as departmentation, and it involves a decision, by the chief executive establishment of a number of manageable units. This facilitates horizontal expansion of the organisation Having marked off such logical units, the chief executive then will assign each of these units to a competent individual to secure intended results. Such individuals are generally specialists by qualifications and experience, in the particular activity, and after appointment, they may be allowed to continue to specialise in that activity still further. Thus, the organisation is able to enjoy advantages of specialisation. Further, it enabled top management to channelise its efforts to direct, co-ordinate and control activities of all departments. There are different bases on which departmentation may be carried out ; these are described briefly here

(a) *Departementation by Functions* : This is the oldest basis for Departmentation used by menufacturing organisations. In such an organisation, the functions regarded as the most important namely production, sale, personnel and finance, are operated, as they are essential for the primary object of making and selling the products ; as a business grows in size and or complexity, additional departments may be created. This becomes necessary either because new functions which were previously not regarded as sufficiently important have assumed importance, or present departmental heads have no time for new activities, or they do not possess technical expertise necessary to manage the new activity. This is how new departments of quality control, industrial engineering, market research, maintenance, purchasing, secretarial etc., have gradually come up.

(See diagrammatic representation, which follows.)

Advantages : The most important advantage is that it is logical, & one which has proved itself useful over a long period. The second advantage is that it assures the heads of the major functions that their importance will be protected by top management against encroachment by numerous specialists who are appointed in a modern business. Thirdly, based on occupational specialisation,

it promotes efficiency in all functional areas. Fourthly, it simplifies training of new personnel as the training has to be only in one activity of a group of homogeneous activities. Finally, it enables top management to exercise effective control over a limited number of functions, and to lay stress on basic activities of the enterprise

Disadvantages : Functional departmentation may not always be suitable For example, if an organisation have its manufacturing or selling activities over a wide area, geographical departmentation may be found to be more suitable. Secondly, functional heads might try to assert their individual importance, may not see the business as whole,and so lose sight of the objectives of the enterprise, making it difficult for top management to co-ordinate their efforts. Thirdly, working in a functional organisation, each departmental head is likely to develop loyalty to his function and not to the organisation as a whole ; it thus sets up invisible walls between departments & so top management has to make a special effort for integration. Finally, it does not provide for training of functional manager for top management positions, and the scope for management development appears to be limited.

(b) ***Departmentation by Process*** : This is suitable only for organisations whose manufacturing activity consists of clearly marked out processes. A typical example is a textile mill which has spinning, weaving, dyeing, bleaching, and printing departments, each based on a separate process. Similarly an engineering company or a petro-chemical unit may have such process departmentation. A computer centre, with its expensive assemblage of equipment, will make a natural department.

Advantages : It is possible to appoint persons who have special education, training and experience in each of the processes, as heads of process departments. This ensures advantages of specialisation and facilitates training of junior managers, as also clear-cut technical division of work ; further, location of similar types of machinery etc. under the same roof, results in economies, such as in operation maintenance and the like.

Limitations : It is not suitable for universal adoption and may be used only when a manufacturing activity consists of distinct processes ; there is also inherent difficulty of co-ordination.

(c) ***Departmentation by Products*** : This is suitable for an organisation, manufacturing a number of important products, as for example, toilet soaps, detergents, hydrogenated oil & cattle feed. Generally,

a company starts manufacturing one product and on a small scale and is organised on the basis of functional departmentation. However, when it has increased considerably in size and has also added new products, production manager, sales manager and others may find that their jobs have become intolerably complex. At this stage ; reorganisation on product basis may offer a welcome solution ; it allows top management to delegate to each product manager extensive authority over production, sales, service, engineering and other functions relating to his product, and to demand a definite contribution from each to the profits of the company.

(See diagrammatic representation, which follows.)

Advantages : Personal skills and specialised knowledge of Product manager in production or sales can be fully utilised. Secondly, it permits full employment of specialised production facilities. Thirdly it makes it comparatively easy for product manager to co-ordinate such activities as sales, service after sales, advertising etc. Fourthly, product managers can be clearly held responsible for their contribution to the profits of the organisation. Fifthly, successful product managers may be found suitable for top general management positions because of their experience in dealing with various aspects of a business, thus facilitating the scope for management development. And lastly, profitability of each product is easily assessed.

Disadvantages : It requires a large number of persons with general managerial abilities who may not always be easily available. Second it multiplies some specialised services such a purchasing, personnel, finance etc. which adds to the cost. Third, it creates the problem of effective control for top management, because of the danger of a product manager asserting his autonomy and disregarding interests of the organisation. Further, some functions like industrial relations, finance etc. can be handled better in integrated from than when split up.

(d) *Departmentation by Territory* or *Geographical Departmentation* : This method is commonly used by service organisations such as railways, motor transport, insurance, commercial banks, and also by organisations whose business is spread over a wide area, that is, over a state, the whole nation, or a number of countries. It is then obviously not possible for one functional manager to manage efficiently such widely separated activities. This makes it necessary

to appoint regional managers for different regions. This reduces the volume of work and makes it manageable for the individual manager. It also allows him to specialise in the peculiar problems of his region.

(See diagrammatic representation, which follows.)

Advantages : First, it allows taking advantage of certain economies of localised operations, such as prompt purchase of local raw-materials, recruitment of local personnel etc. Second, it encourages local participation in decision making, as managers know local problems better and may suggest solutions without waiting for solutions from head quarters. Third, it helps to reduce cost when manufacturing or assembling of parts is carried out locally. Fourth, it secures local goodwill for the organisation. Fifth, territorial organisation of sales activities is more economical, as sales people have to travel less, and can spend more time with customers ; it is also more effective, as salesmen are in close and frequent contact with customers and market and can adopt appropriate strategies. Sixth, territorial units constitute an excellent training ground for higher managerial positions without much risk of loss to the organisation and this helps management development. And lastly, disputes with labour may be kept localised.

Disadvantages : Geographical departmentation requires more persons with general managerial abilities, who may not be always available and so efficiency may suffer. Second, it means multiplication of some of the services at the regional level such as purchasing, personnel, accounting as also machinery, and this adds to the cost. Third, it may generate friction between regional managers, and managers at head office and makes top management control difficult. Further, all significant activities of a firm may not be amenable to territorial specialisation.

(e) *Customer Departmentation* : A business which sells its product or service to a number of distinct and clearly defined customer groups, may prefer to organise its sales department on customer basis. For example, a tyre manufacturing company which sells its tyres to car manufacturers, to defence department of the Government, to State Road Transport Undertakings, and to a nnmber of large dealers, may have a separate sales organisation for each one of them. Similarly, a large ready made garment store may have a separate department each for women, children and men ; or a commercial

bank may have a separate loan department, each for large-scal industries, for traders and for small scale industries.

Advantages : When each customer group has its special needs, requirements and problems, expert personnel are in a position to give better attention to customers along with specialised service. In this way, the organisation can build up good-will and retain the loyalty of its customers.

Disadvantages : First, there is the difficulty of co-ordination between this type of departments and those organised on other bases, because of constant pressure from customer departments for special treatment. Secondly, there is a possibility of under utilisation of manpower and facilities in times of recession, when some of the customer groups may shrink considerably or even may disappear.

(f) *Departmentation by Numbers or by Time :*

A number of persons pursuing a set of activities, may be a basis of departmentation. in this pattern, the department (a number of persons formed in a group) is set a task and it reports to the manager to whom it is responsible for fulfilment of the task ; an example is a gang in Railways, Electricity Boards etc.

An allied method of grouping, by time, has a limited applicability. It often goes with the preceding method, so that a group working for a definite period, makes the joint criterion of departmentation ; an example is a shift in factory work.

(g) *Departmentation by Committees :*

In many organisations, Committees are often placed in charge of functions and play the role of departments. This method is seen in operation in academic, professional and research institutions ; thus a national professional institution may have the following major functions, each headed by a differently constituted committee.

(i) Examination (ii) Training and Education (iii) Research (iv) Professional Development (v) Journal and Publications (vi) International Co-operation (vii) Discipline and Ethics (viii) Administration.

(h) *Matrix or Grid method of Departmentation :*

Matrix or Grid structure is a mosaic of task and functions. In a sizeable programme or project, the task often is formidable, yet temporary, as all programmes must be completed on time. These matter opposing and exacting demands on the organisation is met by an innovation known as Matrix of Grid structure.

Simple diagrammatic representation of certain Departmentations

(a) *Functional*

BOARD OF DIRECTORS

MANAGING D RECTOR

Mgr. Projects | Mgr Production | Mgr Sales | Mgr Finance | Mgr. Technical | Mgr. Personnel | Etc.

(c) *By Products*

BOARD OF DIRECTORS

MANAGING DIRECTOR

Mgr. Projects | Mgr. Sales | Mgr Production | Mgr. Finance | Mgr. Technical | Mgr. Personnel | Et

Mgr | Product "A"
Production | Sales | Technical | Finance | Etc. | Etc.

Mgr. | Product "B"
Production | Sales | Technical | Finance | Etc. | Etc.

Mgr. | Product "C"
Production | Sales | Technical | Finance | Etc. | Etc.

(d) *By Territories*

BOARD OE DIRECTORS

MANAGING DIRECTOR

Mgr. Projects | Mgr. Sales | General Manager | Mgr. Financc | Mgr. Technical | Mgr. Personnel | Etc.

Mgr. Western Division
Production | Sales | Technical | Finance | Etc. | Etc.

Mgr. Central Division
Production | Sale | Technical | Finance | Etc. | Etc,

Mgr. Eastern Division
Production | Sales | Technical | Finance | Etc. | Etc.

Etc.

In concluding this discussion about bases of departmentation, it may be noted that large organisations with many units or products, may find it convenient to adopt functional departmentation at top-level. This keeps the span of control for top management reasonably small, allows it to concentrate its attention on major functions of the business, and to watch closely total achievement from time to time. It is at the middle management or secondary level, that there are some scope and discretion for the choice of a particular basis of departmentation, eg, depending upon predominance of products, territories, or customers.

V

Criteria for Grouping of Activities : It should be appreciated that a business organisation, generally cannot be structured permanently on one particular pattern This is because whatever pattern it may choose to start with, it may prove to be unsuitable or inadequate with growth in volume of its business, increase in number of products. or spread of its activities over a wide area. For example, an organisation may start with functional departmentation but having later become a multi-product, multi-unit organisation, it may have to introduce product departmentation for sales activities. and each product division may resort to territorial departmentation within each product department.

The basic purpose of departmentation is to make the size of each departmental unit manageable, and to secure advantages of specialisation for the organisation. Whatever the basis of departmentation adopted, there may be all sorts of pressures to increase number of departments in course of time This, however, will have adverse effects on efficiency of the organisation, Top management, must, therefore, have some criteria for guidance as to how far to go in this direction, and when to stop. Some suggested criteria are : (1) Specialisation, (2) Co ordination, (3) Control, (4) Adequate Attention to Important Work, (5) Cost consideration, and (6) Human Considerations.

Specialisation : The first consideration is to permit persons to specialise in certain kinds of work. This enables them to become experts and allows the organisation to reap benefits of their specialisation. Generally, specialisation is thought in terms of functions, but a person may be an expert on a product or a particular type of customer ; the question then is to decide as to which particular body of knowledge or skill is more important to get a job done, and to departmentalise on the basis of that more important speciality

Co-ordination : One purpose of departmentation is to make each department manageable by an expert or a group of experts. Functional departmentation, for example, makes this possible but creates a problem of

co-ordinating efforts of a number of functional specialists to achieve the common goal. In a multi product organisation, this co-ordination is very important and so all functions relating to his product, namely manufacturing, buying, selling, etc., are placed in charge of each product manager.

Control : Essence of control is to measure performance and to hold people responsible for results. The type of departmentation which makes it easier to achieve is preferable ; this is why departmentation is made in such a way that duties of each department are clearly marked off from those of others ; for example, two or more units under one management are made semi-autonomous and entrusted to two unit managers, which provides performance standards for comparison and throws up inefficient operations of units.

Adequat Attention to Important Work : One rerson for separating primary operations from auxillary services is to ensure adequate attention to all phases of work This is why a more important activity is placee higher up in organisation structure so that it receives full consideration from top management.

Cost Considerations : Any pattern of departmentation affects costs in two ways ; first, a new unit will require a new executive with his assistants and administrative staff, all of which will add to expenses ; further, such executives will impose a heavy burden on line managers, make demands on their limited time and thus adversely affect their efficiency. A new department, should, therefore, be added only if top management is fully convinced that benefits will be more than expenses involved in creating such a new unit.

Human Considerations : The structure evolved in the light of foregoing considerations will obviously, be a logical structure. Efficiency of an organisation, however, depends on people working in it. Social scientists have shown that human beings are not entirely logical or non rational ; they are also non-logical and to some extent, emotional. The ideals, therefore, may have to be suitably modified in order to allow human considerations such availability of personnel, informal relations and groups within the formal organisation, traditions and conventions of the enterprise, prevailing environmental attitude etc.

V

Organisation Manuals : An organisation manual describes, in the form of a book, booklet or looseleaf folder, in detail, scope of authority of each position, extent of its authority as well as its limits. It also explains nature of its relations-superior, subordinate, equal-with all other positions together with relative duties and responsibilities. Such a manual is of great value to

top management as well as to all managers. A complaint of encroachment on the area of authority of one manager by another, may be satisfactorily settled by a reference to the manual. Similarly, if top management discovers cases of dereliction of duties or neglect of some responsibility by managers, the same may be suitably brought home to the managers concerned. Organisation Manuals, however, are not very popular as their preparation is a time consuming, laborious and costly process. Organisation Charts, however, are quite common.

Organisation Chart : An Organisation Chart is an important tool for portraying net-work of an organisation structure. It shows the top structure as well as that of the divisions and departments.

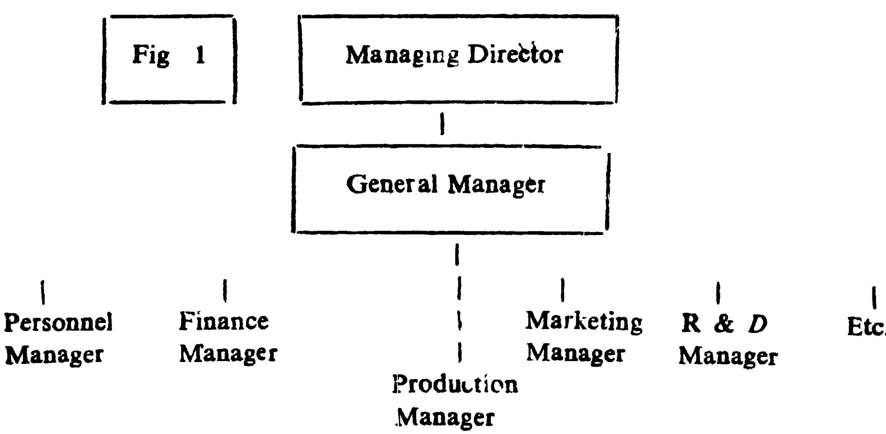
It shows : (1) The main positions, nature of relationship between them, and the channels of communication ; and

(2) Levels of management.

According to George Terry, it is "a diagrammatic form which shows important aspects of an organisation, including the major functions and their respective relationship, the channels of supervision and the relative authority of each employee who is in charge of each respective function."

Different Types of Charts : There are four different methods in which an organisation chart can be drawn. One common and popular method is a *Vertical Chart* from top down, as shown in the Fig. I :

Fig 1



The Second Method is Horizontal Chart from left to right, as shown in Fig. 2 :

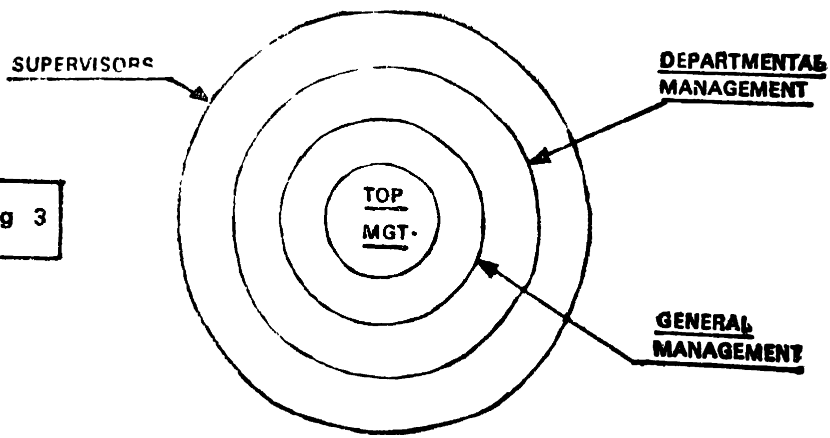
Fig. 2

M. D. → G. M. →

- R & D Manager
- Marketing Manager
- Production Manager
- Finance Manager
- Personnel Manager
- Etc.

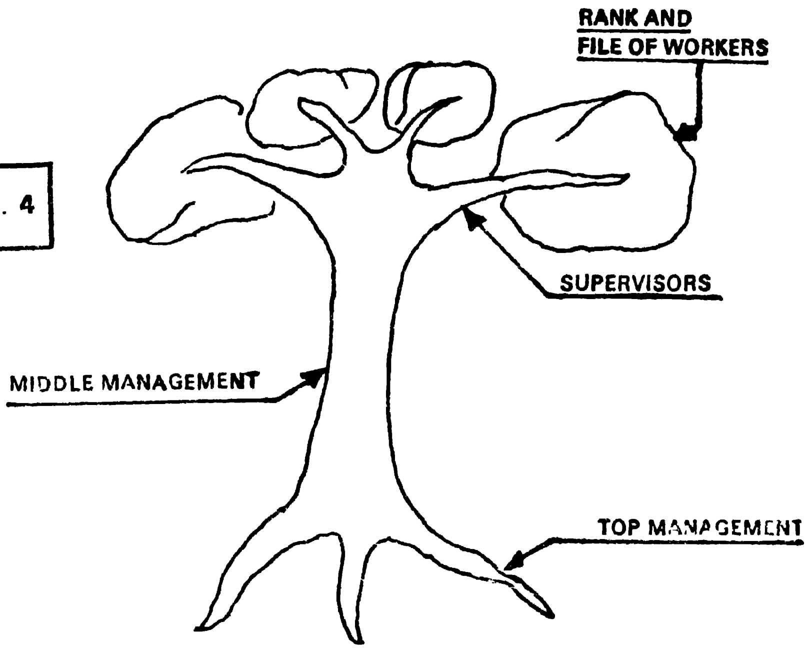
The third method is a Circular Chart in a concentric form, as shown in Fig. 3 :

Fig 3



The fourth method is in the form of a tree, as shown in Fig 4. Here roots represent top management, that is M, D. & G. M., the trunk represents middle management, branches represent supervisors, and leaves represent rank and file of workers.

Fig. 4



Uses of Organisation Charts : First, the very process of drawing up organisation charts makes top management think more clearly about the relationship which underline it ; vague relationships have to be thought out before they may be correctly charted. Relationships not previously concei-ved may be discovered and examined. Secondly, once constructed, these provide a clear picture of and information about, the organisation at a glance Thirdly, they are useful in familiarising new employees with the organisation. Fourthly, they help a personnel manager in formulating training programmes for employees to be promoted to higher positions ; some of the more ambitious employees may equip themselves on their own for higher positions by studying organisation charts and or manuals. Fifthly, they provide a starting point for planning organisational changes after having discovered inconsistencies or weeknesses of the existing structure. Finally, a chart serves as a better method of visualizing the tone and charac-ter of an organisation than a lengthy written description.

Limitations : Organisation Charts suffer from certain limitations. One is that charts are likely to become out dated unless these are continually kept uptodate. Secondly, a chart shows only broad relationships between different positions and not between the position holders ; precise relationships between individuals cannot be shown on a chart. Thirdly, charts are likely to introduce an element of rigidity into relationships, each Individual being compelled to remain within his charted area and defending it against attacks from his colleagues. Fourthly, charts tend often to foster 'buck-passing', that is, shifting responsibility to some body else. Fifthly, charts do not show extents of authority or responsibility of particular positions. Sixthly, these often give rise to feelings of superiority or inferiority in incumbents, which go against them spirit. Lastly, Charts emphasise only formal relationships and formal channels of communication but ignores completely informal aspects, which play an important role in a modern organisation

Co-ordination : Management thinkers regard this as a very important element. It has been defined as "the process whereby an executive develops an orderly pattern of group-effort among his subordinates and secures unity of action in the pursuit of a common purpose". Mary Follett, (Ref Study Note 1), claimed that co ordination alone can ensure "Plus Value" of a group, that is, it can ensure that "the whole is greater than the sum of its parts."

Co-ordination is that function which makes different members of a group and different groups or units in an organisation, work harmoniously for realisation of the common objecctive. It has also been defined as "the effort to ensure a smooth inter play of the functions and forces of all the different component parts of an organisation, so that its purposes will be realised with a minimum of friction and a maximum of collaborative effectiveness". This however, does not take place automatically in an organisation

Successful co ordination is based on certain principles, such as :

(a) Directness : Co-ordination work best through direct personal touch.

(b) Early start : The process should begin with the beginning—from the preparation of the plan

(c) continuity : It is a continuous and a circular activity ; starting form planning, it runs right through and across the organisation, directing, controlling—to innovation.

Techniques and devices, which help Co-ordination, include the following :

i) A good organisational set up, with responsibilities properly defined ;

ii) A good and intelligible communication system ;

iii) An able common superior is a great co-ordinating factor, since activities of different subordinates, below him, are serpervised by him ;

iv) In general, committees help co-ordination by bringing together representatives of different, often conflicting, interests ;

v) Meetings of departmental heads, as also departmental meetings, may be periodically convened to iron out differences ;

vi) A person of suitable temperament may be specially appointed to provide continuing liaison amongst different departments or units.

vii) Broad, comprehensive and dynamic policies.

STUDY NOTE : 3

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Explain the importance of a sound organisation structure. Describe briefly the approaches recommended by Drucker for developing such a structure.

2. "The classical view of the organisation structure is formal and mechanistic". Comment critically.

3. Explain how and why informal groups are formed within a formal organisation.

   Discuss the impact of such groups on the organisation and suggest how a manager should handle these groups.

4. What are Organisation Charts ? How do these differ from Organisation Manuals ? Describe different types of Organisation Charts and draw suitable diagrams.

   Discuss the advantages and limitations of Organisation Charts

5. Write notes on the followings :

   (1) Principle of Departmentation, (2) Principle of Unity of Command, (3) Principle of Span of Control, (4) Principle of Balance

6. What are the different methods of departmentation ? Discuss critically suitability and limitations of each.

7. Discuss the merits and limitations of a wide and narrow span of control. How could you determine optimum span of control in a given situation ?

8. Discuss the principle and criteria of grouping strategies.

9. Discuss Urwick's Ten Principles of Organisation.

10. Define co-ordination. Discuss techniques of, and aids to, co-ordination.

STUDY NOTE ; IV

I

ORGANISATION (CONTINUED)

Growth of an organisation leads to an increase in responsibilities for its management. This makes greater demand on their limited time, and often makes demand for new knowledge, or new skills which the manager himself may not posses. To reduce his burden, he introduces departmentation discussed in Study Note 3, which facilitates horizontal growth of an organisation Increase in volume of business may also lead to a vertical growth of an organisation, and this process of vertical growth is facilited by delegation and decentralisation of Authority.

Concept of Authority : According to Monney and Reiley "Authority is the principle at the root of organisation and so important it is that it is impossible to conceive of an organisation at all, unless some person or persons are in a position to require action of others". Inspite of its impertance, however, its meaning is not very precise In everyday life, authority has a number of meanings : It may mean a person who has a superior knowledge any skill in a particular area ; it may refer to some official such as Commissioner of Police, Vice Chanceller of a University, or Managing Director or a Company ; the expression "Authorised Dealer" has a still different cannotation, that of a legally constituted relationship ; there is also the concept of the authority of a situation in which it is the circumstances, and not the person, which dictate a decision. These everyday meanings of authority are not adequate, however, for management purposes.

Definition of Authority : Authority in management may be defined as "the right to guide and direct the actions of others and to secure from them responses which are appropriate to the attainment of the purposes and goals of the organisation". Again, authority is the cement of organisation structure, the thread that makes it possible, the means by which groups of activities may be placed under a manager and co ordination of organisational units may be promoted.

Sources of Authority : There are mainly two theories :

(1) Formal Theory and (2) Acceptance Theory.

Farmal Theory : According to this theory. the ultimate source of authority is principally in the institution of private property, as guaranteed by our Legal system and the Constitution. In a business enterprise, authority originates at the top and is delegated by the owner to their representatives, directors, managing director, departmental managers and from there further on down to various subordinates. In short, the formal theory views authority as the power transmitted from basic social institutions to individual managers.

Acceptance Theory: This theory has been advocated by Chester Barnard, author of "The Functions of the Executive". According to him, merely having authority to give orders is insufficient, for a subordinate may refuse to obey. As he puts it, "if a directive communication is accepted by one to whom it is addressed, its authority for him is confirmed. It is admitted as a basis of action. Disobedience of such a communication is a denial of its authority for him Therefore, under this definition, the decision as to whether an order has authority or not, lies with the person to whom it is addressed and does not reside in the person of authority or those who issue these orders" In short, the authority of a person depends partly on its acceptance by the subordinates, and follows, as a corollary, from Max Weber's postulate that authority is a function of compliance According to this theory, it would mean that managers would literally be at the mercy of their subordinates for execution of their orders. However, Barnard absolutely noted that it was often possible to secure consent and co-operation of Subordinates. First, they can and do understand the order or communication, believe it to be consistent with the purpose of the organisation, and with their personal interest as a whole, and are able physically and mentally to comply with it. Secondly, each individual has "a zone of indifference"; orders falling within this zone are accepted without question; orders falling beyond this zone will clearly be unacceptable; a good number of orders, however may be on the border line. It is for the executive to widen the zone of indifference to include orders falling within this category. Thirdly, refusal to obey on the part of one person may affect efficiency of the organisation and may will prove to be a threat to other members. When this happens, fellow workers will often bring pressure on the individual to comply.

"Personal" Authority for Manager: It should be clear that although managers have authority because of their formal position in the organisation, it is not enough; they should try to supplement it by "Personal" authority. According to Fayol, this personal authority flows through technical competence, experience, moral worth, and ability to lead; it is this combination which ensure acceptance of his authority by the subordinates.

Line Authority: This is the basic type of authority in any organisation. It is the ultimate authority to command, to act or to decide in matters affecting other; it is also the authority which sanctions or approves actions which take place in the organisation; it is the authority which channels and direct responses of others and requires them to conform to decisions, plans, policies and procedures In short, it is the heart of the relationship between an employee and his superior It implies not only the right to decide but also the right to command action, which distinguishes managerial actions from non managerial ones.

A primary purpose of line authority is to make the organisation work. It does this in a number of ways. First, it provides basic decisions required for operation an enterprise, provides initiatives force for actions and makes leadership effective by establishing authentic channels of communication. Secondly, it serves as a means of control by setting limits to the extent of authority of individual members and helps to ensure that employees conform to the plans and policies of the enterprise. Thirdly, it provides points of reference for sanctioning or approving proposals or,actions, without which, persons concerned would not be certain that the activities would be effective.

11

DELEGATION OF AUTHORITY

Delegation is the process of entrusting part of the work by a manager to subordinates. It is this process which gives rise to a hierarchy of levels of authority in the organisation According to Louis Allen, it is "the dynamics of management, it is the process a manager follows in dividing the work assigned to him, so that he performs that part which only he because of his unique organisational placement, can perform effectively, and so that he can get others to help him with what remains",

Delegation is the formal mechanism by which a net work of superior-subordinate relation is established. Mcfarland has defined it as that part of the organising process by which a manager makes it possible for others to share in the work of carrying out the company's purpose. According to him, it also includes the process of assigning duties, responsibilities, and authority to those whom he expects to help him in doing the work In short, it is the process by which authority is distributed throughout the organisation.

Basic Steps in process of Delegation : The basic steps are : (1) Assignment of duties by an executive to his immediate subordinates ; 2) Granting of authority to them to use resources, and to take necessary action ; (3) Creation of responsibility or obligation on the part of each subordinate for satisfactory performance of the duties assigned ; and (4) Retaining of accountability, with himself, for performance of his subordinates.

It should be remembered that delegation, however, is not a blank cheque ; it is not a permanent divesting of certain functions by a delegator who retains overall responsibility for all tasks and powers delegated.

Assigning Duties : The principle reason for an executive to delegate authority is to reduce burden of work which otherwise he himself would have to perform. When an executive finds the activities to be performed as too many for him to perform efficiently or when he is not interested in some of them, or does not possess the necessary technical knowledge and skill to carry them out, the logical way out is to delegate some of these activities to others who could perform them better or at least as efficiently as he has been doing.

Granting Authority : A manager confers on a subordinate the authority to decide within a limited area, and to act in the best possible way. The subordinate exercises this authority according to his understanding of the intentions of the delegator and within the frame work of such controls as the latter chooses to establish. A problem for a delegating executive is to determine the scope of authority he wishes his subordinate to excise and to so frame his

communications to them, as to mark out clearly for them range of their expected and permitted actions.

Two rules have been suggested for executives when delegating authority ; they are as regards clarity and amount, the delegator should ensure to clarify the nature of authority he is delegating to the delegatee If it is not so, and if there is any lack of clarity as to the scope of his authority, it may lead to confusion in his mind and to conflict with other executives ; this will impair his efficiency and may slow down the work of the organisation. It is, however, possible to avoid this if there are up-to-date organisation charts and organisation manuals for reference.

The other rule is that authority and responsibility should be coterminus or equal The reason is obvious ; for, if authority exceeds responsibility, a subordinate may be tempted to misuse it and this might create resistance among those who are subjected to it. On the other hand, if authority is less than responsibility, he may not be able to take appropriate actions, neither would he be able to compel others to co-operate with him in discharging his responsibility As a result, he might experience constant frustration which could sap his energy and destroy his desire to give loyalty to the organisation.

Creating Responsibility : The next step is to create an obligation on the part of the subordinate for satisfactory performance of the delegated responsibility. While delegating responsibility, an executive should make sure that the subordinate selected is competent enough, and will accomplish the work assigned

Retaining Accountability : The process of delegation has the pecular feature of leaving the delegating executive as much authority as he had prior to delegating even though, seemingly, he has disposed it of by giving it out, various amounts, to his subordinates. This is also true of responsibility, that is, no matter to what degree he establishes an obligation on the part of hif subordinates, he still remains accountable to his superior for permance of the job which he delegated to his subordinates. In short, an executive while delegating, does not abdicate his responsibility, bligation on accountability.

Advantages of Delegation : *Advantages to the Superior* : As delegation is a voluntary act on the part of the superior, it is necessary for him to be convinced of its advantages. Delegation relieves the superior of many routine duties and saves his valuable time which he may accordingly devote to more important aspects of his job This will help him to improve the quality of his decisions and of his performance ; he might also be able to use a part of this time for his personal development and growth and prepare himself for higher positions in the organisation

Advantages to Subordinates : It is a natural human desire to aspire for promotion after some time. Management, however, will promote only those who have the potential abilities and skills demanded by higher positions Delegation alone offers opportunities to subordinates to test their capabilities, and to develop their potential and thus qualify themselves for higher positions.

Advantages to the Organisation : Organisation have a much longer life than those who manage them at a certain period of time. With the passage of time. managers would disappear from the scene and yet, if organisations are to continue and proper, theee must be capable men. preferably within organisation, to take the place of those who leave, retire or die. This means that younger men down the organisation ladder should be trained for eventual promotion. for which delegation, which is training on the job, is an effective and economic method. When subordinates are assigned, from time to time, some of the more difficult duties of their superiors, at least some of them who are made of the right staff, will learn from their training, experience, and mistakes, and may prove their capability for higher positions. In this process, their occasional failure and that of others, will not be so costly as it would be if persons were promoted to higher positions directly, and without having proved their worth through discharge of delegated responsibilities.

Reluctance to Delegate : It has often complained that in spite of its advantages to all concerned, delegation has not been as freely adopted as it should be, in many business organisations. This reluctance to delegate is, however, not a new problem ; in fact, it is perhaps as old as history of human civilization

Studies in India and in a number of other countries, suggest : that executives are generally reluctant to delegate because of two main reasons ; (i) Desire to dominate and control, and (ii) Unfair attitude to subordinates.

Desire to Dominate and Control : Executives who are in their positions because of ownership, and many others, have a psychological desire for power and control over people. They have a passion for power and enjoy constant interaction with subordinates. Doing tangible work is a pleasant activity for them, whereas spending time on thinking, planning and less tangible activities is difficult and painful.

Attitude towards subordinates : Delegation of authority implies a particular kind of relationship between an executive an his subordinates. Therefore, his attitude to his subordinates assumes importance in the process of delegation. Two such attitudes which are commonly identified, are frequently responsible for the reluctance to delegate. These are : (1) Lack of Faith in subordinates and (2) Fear of Subordinates.

Lack of Faith in ability of Subordinates : This appears to be a primary reason why many executives find it difficult to delegate, as they feel that their subordinates are not capable of doing the jobs which they should delegate. The real reason, however, could be that they subconsciously believe that nobody else can do the jobs as well as they can.

Fear of Subordinates : An executive may be afraid that one of his subordinates, given the chance may outshine him, and attract more attention and recognition than he himself He may also fear that if he delegates too much, he may not leave enough for himself : in other words, by delegating too much he may work himself out of his job.

Measures to Encourage Delegation : A chief executive, who is convinced of necessity of delegation may adopt certain measures to encourage his senior executives to delegate.

Creating Favourable Management Climate : A climate most favourable to delegation is one of expansion and of optimism about the future In an expanding organisation, there will be opportunities for executives to rise still higher positions, They would, therefore, have no fear of losing their jobs if they train some of their subordinates, through delegation, to qualify for higher positions Further, a company may lay down a policy that an executive, eligible for promotion, will be promoted only if he has developed one of his subordinates to take his place. This will also help to remove the feeling of fear in the minds of executives about losing their jobs because of successful delegation.

Associating Executives in Selection of their Subordinates : An executive may be more willing to delegate if he has subordinates in whom he has confidence. What generally happens is that an executive has to get work done from subordinates allotted to him, and in whose selection he had very little choice ; and when a subordinate fails, he gets blame, being accountable. Such being the case, it is natural for an executive to do the jobs himself and not to delegate much If, therefore, an executive is consulted in selection of his subordinates, the foregoing cannot be given as an excuse for non-delegation.

It is necessary to know :
What to delegate
How much to delegate and
How to delegate successfully,
with regard to the art of delegation.

What to Delegate : Generally, there are some jobs which an executive alone, because of his organisational position, can perform. These jobs include planning, decision-making, co-ordinating and controls, which should not be delegated On the other hand, there are many routine, repetitive, less important activities which he must delegate Activities outside these two groups, he may or may not delegate depending on the availibility of suitable subordinates.

How much to Delegate : As has been pointed out earlier, strictly speaking, authority should be equal to responsibility. However, successful executives have suggested that authority, in terms of resources, money and time to be granted when delegating, should be a little less than is required. The reason is that it is possible that a competent subordinate would take it up as a challenge, and accomplish the task with less authority ; this helps to develop potential abilities of competent subordinates. If however, later on, an executive finds that a subordinate needs more authority to accomplish the jobs, the same may be granted to him at any time.

How to Delegate Successfully : Successful delegation is not only a technical matter ; it is also an art. An executive must, therefore, think for himself and develop his own technique of delegation. Louis Allen has suggested in his book, 'Management and Organisation', the following guidelines : 1) Establish Goals, 2) Define Responsibility and Authority, 3) Motivate Subordinates, 4) Require Completed Work and 5) Establish Adequate Controls In these guide lines, only the fourth one requires an explanation : the others are self explanatory.

Require Completed Work : Delegation does not always reduce work load of a manager ; some times it may increase it. This may seem parodoxical but it does happen when a subordinate keeps on referring back with questions, problems, or requests for guidance or advice ; the problem then is how to reduce this reference back and yet get the best performance. One permit the subordinate as much contact with his chief as he wishes ; this may ensure better performance, but it is impractical because, in this way, the manager may end up by doing most of the work himself The other alternative is to put the subordinate completely on his own and refuse him access until he has completed his job ; this will, no doubt, save the time of the manager, but it will also deny the subordinate advice and guidance he needs from his boss ; and this may also adversely affect quality of his work. A reasonable solution is, therefore a compromise represented by the rule of 'Completed Work'. It means that the subordinate will be given limited access to his boss ; he will meet his boss periodically, to report about his partly finished work, how he proposes to complete it, what problems he is likely to face and how he proposes to tackle them. In this way, the subordinate will develop his own abilities and will gradually be able to solve his problems without advice of his boss.

III
DECENTRALISATION

Decentralisation is an extension of delegation. Delegation refers primarily to entrustment of responsibility and authority from one individual to another. Decentralisation implies a systematic delegation of authority throughout the whole organisation. It is however, different from dispersal of physical activities. An organisation with its production and sales activities spread over a wide area need not necessarily decentralise authority; authority may continue to be centralised. On the other hand, an organisation with its physical activities in one place may resort to decentralisation.

Centralisation is a systematic and consistent reservation of authority at central point within the organisation. It denotes that a majority of the decisions concerning the work are made not by those doing the work but at points higher up in the organisation. As Fayol put it, "Every thing that goes to increase the importance of the subordinate's role is decentralisation: everything that goes to reduce it is centralisation."

Why Centralisation: Through out the nineteenth century, in business as well as in political and social organisations, an almost universal practice was centralisation of authority with those at the top. This was justified on three main ground: (1) It facilitates personal leadership, (2) It provides for integration and uniformity of action, and (3) It facilitates handling of emergencies.

Personal Leadership: Personal leadership can be a potent influence in the success of a small company and during the period of its growth. The success of a small and young enterprise in a competitive market depends on its aggressiveness, singleness of purpose and flexibility. Under a talented, dynamic leader who is able to assert personal command, centralisation results in quick decisions, and enterprising and imaginative actions. A small company with such leadership shows a distinctive flair in designs of its products, or in its advertising and sales management, which enables it to meet successfully competition of its big rivals.

Provides for Integraton: Most companies find that some amount of centralisation is necessary to unify and integrate total operations of the enterprise. Central direction is needed to keep all parts of the company moving harmoniously together towards a common objective, for it decentralisation proceeds too far, this may be encangered.

Promoting Uniformity of Action: To the extent that a company desires all its units to do the same thing in the same way, there must be centralisation of appropriate decisions. It is only when major decisions are made by a central authority, administratively higher than operating units, that there will

be uniformity of purpose and of control. For example buying of materials, recruitment and promotion of personnel advertising in a multi unit company, are some of the matters which could well be centralised.

Handling Emergencies : Centralisation of decision-making is highly desirable when emergency decisions affecting all units have to be taken For example, inventory management in a company may be ordinarily decentralised If, however, it becomes necessary to cut or increase inventories to meet an impending emergency, such a decision may be effectively taken only by top management

Why Decentralisation : Lately, average size of enterprises in many countries, including the United States, increased considerably. There are now many giant multi unit, multi, product corporations, which operate not only nationally but also internationally Having experienced many difficulties in the smooth running of such cenralised organisations, decentralisation of authority has been suggested and largely resorted to particularly to achieve the following purposes : (1) Easing burden of Chief Executive, (2) Facilitating diversification, (3 Providing product or market emphasis, (4) Developing managers, and (5) Improving motivation.

Easing Burden of Chief Executive : Centralised, personal management turns administrative mechanism of a company into a funnel which pours the full weight of problems and pressures, from all parts of the organisation, upon the chief executive and his immediate senior executives This compels the chief executive to attend only to day-to-day problems, to do fire-fighting all the time, and does not leave him much time to p an ahead, anticipate problem areas, provide necessary coordination and develop control. Decentralisation alone can reduce his burden and allow him to operate effectivly.

Facilitating Diversification : If a company with centralised management launches a programme of diversification of its product lines, it may well soon discover that capabilities of its top executives are being overtaxed and that they are not in a position to give adequate attention to each product, Product decentralisation would make each product manager responsible for optimum development of his product and yet secure for him necessary guidance from skills and experience of his chief executive.

Providing Product of Market Emphasis : When a company begins to lose its market to competitors or when its product line fails to keep abreast of innovations or customer demand, a basic reason is frequently the inability of its highly centralised management to be as alert as it should be However, in a competitive market, a company must be able to offer as new a style, as high a quality, and as low a price, as its competitors, or it will fall by the wayside. A customer is not interested in knowing that it is not able to do so because of its highly centralised management and will buy from that company

which meets his requirements. In short, a company with a number of products and a diversified market, may have no alternative but to resort to product decentralisation to survive and prosper.

Developing Managers : Many companies find general lack of managerial talent as a limiting factor in their growth. It is evident that a company cannot expand effectively beyond the scope of the abilities of its managerial personnel Capable managers, however, may be developed only assigning management jobs to suitable persons and delegating to them authority to make important decisions. Those who are made of proper staff will learn and improve from their experience and mistakes and will qualify eventually for higher managerial positions. A decentralised organisation can offer such opportunities to would be managers, without involving a company in heavy losses through their mistakes, etc Further, in a decentralised organisation, managers may have comparative freedom to try out new ideas, methods or techniques.

Improving Motivation : Researches at a number of American Universities and Social Research Institutions have demonstrated that decentralisation facilitates delegation, communication and participation and thereby provides better motivation to managers for higher productivity. It stimulates formation of small cohesive groups, as local managers are usually given a large degree of authority and local autonomy ; this enables them to weild their people into closely knit integrated groups. These managers also discover that effective leadership of such groups demands a high degree of participation, constant effort to communicate, and continued interest in welfare of members of these groups. By forcing a manager to work more closely with his subordinates, decentralisation enhances his ability to appraise their performance, to counsel and coach them. This, in itself, is a potent source of motivation.

Degree of Decentralisation : As a rule, it is only a large—scale organisation, especially a multi product or a multi-unit organisation, which has the choice to decentralise or not ; and here again, the choice is in the degree of decentralisation, and not of camplete decentralisation, because the latter might well lead to disintegration of the parent organisation. It is therefore, generally accepted that for success of a decentralised organisation, it is absolutely essential to have a small centralised headquarters which will act as the nerve centre of the enterprise As their authority is away from operating units, it is best placed to make decisions which will apply to all units ; for it then will have right perspective, balance, and objectivity, so necessary to determine the best course of action for all the units It will make overall decisions in the matter of (1) Planning (2) Co-ordinating (3) Motivating and

(4) Control All these decisions will be communicated to all the units which may be permitted suitable latitude for varying actions in implementing these decisions. The central authority will, however, oversee that all unit managere move in the same direction and their activities are coordinated to secure optimum total performance.

Federal Decentralisation : Some large American Corporations like General Motors, General Electric and others having multi-product, multi-territorial a manufacturing and selling operations, have successfully achieved decentralisation of authority through the technique of Federal Decentralisation." Under this arrangement, the entire organisation is devided into semiautonomous product divisions ; each such division operates more or less as an autonomous unit, and a divisional manager has wide powers to make decisions regarding purchase, manufacture, sale and other functions. And yet, top management, with help of experts in different functional areas, exercises effective overall control. This scheme viz : on the Basis of decentralised authority and Centralised Control, become after World War II, organisation model worldwide, specially for larger organisations. The following description, by Peter Drucker, gives a clear picture of how this form of decentralisation operates :

"As General Motor's Division A. C. Spark Plug, for instance, is all but a complete business in itself ; it may sell a large part of its products direct to customers for replacement and to other automobile companies which are competitors of General Motors. It purchases its raw materials, does its own engineering, designs its own manufacturing processes and so forth. Because of the special nature of its products, it may not even make use of the Corporation's Central Research facilities. What is used is services : product testing consumer research, legal advice, which many entirely independent companies any how buy from outsiders Further, it does not conduct its negotiations with the unions, they are settled by the central oranisation The only important function which and independent busisess has to dis charge and which A. C. Spark Plug does not, is the function of raising of capital. The General Motors provides it with funds and exercises control through demanding a definite Rate of Return on funds so invested".

It may be helpful to summarise the following salient points of distinction between delegation and decentralisation :

(1) Delegation creates superior - subordinate relationship between an executive and his subordinate managers, where as decentralisation leads to diffusion of decision making authority throughout multiple layers of an organisation.

(2) Delegation is a technical, routine, administrative activity involving only managers and their subordinates, while decentralisaiion is a

deliberate and conscious of top management to manage expansion under competitive conditions and environmental pressures and challenges.

(3) Delegation of authority can take place without decentralisation, but there can be no decentralisation without delegation.

(4) In case of delegation, the delegator continues to have some directive responsibility towards his subordinates ; but in a decentralised organisation, direction is to a large extent substituted by general and overall control by top management

(5) One purpose of delegation is to relieve execessive burden of senior managers, but decentralisation embodies a new philosophy of helping junior managers to develop and to grow.

IV

LINE, STAFE AND FUNCTIONAL AUTHORITIES

Nineteenth century business enterprises were by and large, line organisations, in the sense that all managers in the organisation, from general manager down to the shop floor supervisers, had line authority. There was direct line, a direct chain of command, from one superior to his subordinate all the way down the line ; it meant that each superior had authority to give orders to and to demand obedience from his subordinates, and this was the kind of authority which was found in military organisations.

Evolution of Staff Specialists : Growth in size of business as well as developments in technical field, viz of production, marketing, taxation, labour etc. brought in complex problems. Top management did not always have time or technical competence to tackle such problems ; they began to feel the need for experts who could give him reliable advice and guidance in these areas. This is how staff specialists, such as a tax expert, market research expert, a maintenance engineer, an industrial engineer, a secretary, a financial accountant, a cost accountant, a labour officer etc , come to be appointed in course of time.

Nature of Authority of Staff Specialists . Line authority is all pervasive ; it has control over all activities and all persons working under it. A staff specialist, however, is appointed to advise and help a line executive on a specific subject to enable him to improve quality of his decision and action. The scope of his authority is, therefore, narrow, that it limited to his field of specialisation Secondly, the line executive has the right to command, while the specialist has no such right. This means that the line executive has the right to accept, modify or even reject the advice of the staff specialist and the latter cannot insist on acceptance and implementation of his advice by the line executive. One reason is that the line executive alone is reponsible to his superior for performance in his area ; if he fails, he cannot plead that he implemented the advice of the specialist and so the specialist and not he should be held resonsible. In short, it is the line authority which is responsible for total performance, and it has, therefore, the ultimate authority to decide and to act.

Functional Authority : Business organisations grow in course of time. both vertically as well as horizontally. The line organisation with its long chain of command represents vertical growth, At some stage in this growth, need for horizontal growth begins to be felt This is brought about by functional departments such as finance, purchase, personnel and research and development. A person in charge of each of these depratments is an acknowledged expert in his area because of experience and qualifications. There

is, however, a difference in the nature of his authority and that of the staff specialist. The latter has no right whatsoever to command others, whereas the former has a limited right to command. For example, a labour officer, who is given the authority of a specialist, can only make recommendations such as selection, promotion, or dismissal of employees ; on the other hand, a personnel manager, with functional authority, can formulate personnel policies regarding selection, training, promotion, dismissal etc for consideration of top line authority ; if he accepts these policies, then the personnel manager gets the right to ask other departmental managers to accept and implement those policies. Benefit of the expertise of functional managers is thus made available to other managers and, through them, to the whole organisation

Specialists provide Service : In addition to giving expert advice to the line executive to whom they are attached, some specialists may provide expert services to all managers. For example, a personnel manager provides service as regards selection and training to all managers ; O and M expert provides service in the matter of efficient procedures for all ; a credit manager provides service to the sales manager in granting credit to customers and so on.

Specialists may Exercise Control : In addition to offering expert advice and providing services, specialists are occasionally called upon to exercise control on behalf of top management. With extensive labour legislations and complicated union agreements, requiring uniform interpretation etc, a chief executive may authorise his personnel manager to handle all these matters ; a quility control manager in a pharmaceutical, or a aircraft manufacturing company, may be authorized to accept or reject a particular batch of a product ; central purchase department of a multi-unit organisation may be empowered to control the nature and operations of this function.

Conflicts between Line and Staff. A problem for top management of a large organisation which employs staff and functional specialists, is that of frequent conflicts between line executives on the one hand and specialists on the other. It must, however, be pointed out that conflicts are inevitable, and are not necessarily undesirable ; in fact, they are often necessary. In this respect, conflicts in human organisation may be compared to friction in the physical world As is well-known, friction is inevitable in movement, though too much of it will slow down movement. Similarly, differences of opinion and conflicts in organisation are necessary for emergence of better ideas, for overall progress. It is, therefore, imperative that top management ensures that such conflicts are put to constructive uses and not allowed to harm the organisation. To be able to do so, it must know why such conflicts arise ; Social scientists have diagnosed a number of causes of these conflicts.

Causes of Conflicts between Line and Staff :

(1) When an activity which was previously under control of a line executive is separated and entrusted to a specialist, the immediate reaction of the line executive who has suffered a loss of his empire, is one of resent ment.

(2) Line executives generally regard qualified specialists as highly academic but impractical persons.

(3) They also tend to regard specialists' advice as interference in what they regard as their own spheres of activity.

(4) Line executives also resent specialists because the latter claim credit for success but put responsibility for failure of their ideas on line executives.

(5) Specialists, on the other hand, look upon line executives as persons with 'their noses to the grinding wheel', and not open to new ideas.

(6) They also complain that line executives avoid them as far as possible, and approach them when it is too late ; that is, they are used only for "fire-fighting" and their expertise is not fully made use of.

Measures to Minimise Conflicts : To-day, the problem of conflicts is perhaps not so serious as it was in the past, because of various developments. First, many line managers themselves are academically qualified and are able to appreciate the value of expertise ; they also appriciate need for expert advise as they have to attend to their own varied and complicated problems. nor can they be experts in all areas of their responsibility. On the other hand, specialists also realise that success of even the best advice depends on many external factors about which line executives alone are the best judges ; further sucess of their advice also dependends on the skill of line executives in implementing that advice. In spite of all this, it is quite likely that, human nature being what it is, there will be occasions of conflicts between the two. Top managements, therefore, must take timely measures to ensures that such conflict are resolved constructively, to make both to appreciate each others' points of vtew, problems and difficulties, and to work together for goals of the organisation as a whole. Some of the more important of these measures are indicated as follows :

1) *Periodic Meetings* : Top management should set up committees of such line and staff executives whose activities are inter related, with possibilities of differences of opinon and of conflict ; for example, a committee of production manager, quality control manager, sales manager, finance manager and research and development manager may be set up ; and there must be a rule that such a committee will meet regularly and settle all outstanding differences by unanimous decisions.

2) *Rotation of executives* : Whenever possible, a specialist like the quality control manager, or the R. and D. manager may be placed in the position of the production manager. This will enable them to understand and appreciate the other man's view point and so develop an attitude understanding and cooperation

3) *Use of Matrix Structures* : A matrix structure consists of representatives of various specialists that are relevant to tackle a complex problem. When such a structure is set up for a particular problem, it is a temporary one and is called a Project Team ; when it is set up permanently, it is called a Matrix Structure. Such structures were first used on a large scale in the American defense proj cts which had complex coordination requirements, and they proved successful.

A project team is problem oriented in that it is created to solve a specific issue. Generally, the problem is a complex one and no one individual is available with the variety of expertise required ; there is a project director and he is given help of the required specialists from within the organisation ; the team works together and when the problem is solved, the experts go back to their respective departments.

A Matrix Organisation brings together a number of functional specialists outside the formal organisation structure, to solve a specific, complex problem. In a project team or in a Matrix, away from normal organisational controls, specialists gradually get over their narrow functional or departmental loyalties, interact freely, and make their contributions to achieve the best results. When the problem is over and they go back to their ogiginal departments, they are likely to bring with them a cooperative attitude and this goes a long way in minimising conflicts in future.

4) *Use of the Linking Pin Concept :* Another technique to get over line and staff conflicts is to set up the organisation structure on the basis of the Linking Pin Concept developed by Rensis Likert. In such an organisation, over lapping groups are formed with some individuals who are members of two or more separate groups and who served as linking pins between two or more levels.

In such a group, there is collective decision making ; this encourages participation and interaction among individual members. Opportunity for sharing information, arguing one's own position, and genuinely becoming part of the organisational processes are provided at each hierarchical level, and as a result, there is little scope for narrow conflicts.

(7) *Opportunity for Development of Junior Executives* : Committee meetings provide an excellent opportunity for personal development of Junior Executives if they are invited to attend these meetings. They can get an insight into the problems facing their seniors, and how they arrive at decisions on various problems before them ; in this way, they come to know about problems of the organisation, some presumably beyond the scope of their present responsibilities, and can learn how to tackle such problems.

(8 *Morale booster* : Every executive needs to be in frequenct contact with his subordinate executive and periodic meetings of a committee of such executives, are a useful way of keeping their contact more alive than pressing needs of day to day work would otherwise permit. Such meetings help to develop a sense of participation and of commitment to the programmes and activities decided in these meetings and thereby boost their morale.

Limitations of Advisory Committees : As against the foregoing, Advisory Committees have also been criticised for its limitations ; the more serious of these criticirms are :

(1) *Avoiding Responsibility for Decisions* : It has been often complained that when a chief executive is faced with the problem of taking an unpleasant or unpopular decision, he usually appoints a committee to avoid responsibility for taking such a decision.

(2 *A Compromise Decision* : When there is a controversial problem and there are sharp differences in the outlook and attitude of members, the decision reached is likely to be a compromise based on the lowest common factor and not necessarily the best decision in the larger interest of the organisation.

(3) *Waste of valuable Time* : Another criticism is that membership of a number of committees means waste of very valuable time of executives. Time is a highly valuable resource, a manager because once it is lost, unlike other resources, it is lost for ever. Attendance at a committee meeting, preparing for it and keeping track of implementation or its recommendations etc consume valuable time of executives, some of which they could better utilize in performing their own jobs.

4) *It is Expensive* : Committee meetings involve clerical and stationery expenses which might to run into substantial amounts. Further, if some members have to travel to the place of the meeting, their travelling and hotel expenses would and substantially to the cost ; and, time spent by executives in attending meetings have considerable cash value.

Making Effective Use of Committees : It must be conceded however that despite criticisms, committees ; as an organisrtion a device, are very popular and very frequently used. An executive, therefore, must know how to get the advantages of the Committee System and, at the same time, to avoid its pitfalls. Some suggestions have been offered as guide lines for effective use of this device ;

(1) *Clear Terms of Reference* ; At the time of appointing a committee care should be taken to make its terms of reference clear and precise, and to set a time limit for submitting its recommendations.

(2) *Proper Size* : It is a matter of common experience that when there are too many members in a committee, it is difficult to fix date, time and place for meeting, suitable for all members. Further, much time is likely to be lost in preliminaries, aside chats, and irrelevant discussions ; it is, therefore, important to restrict the size to a reasonably small number.

(3) *Careful Selection of Members* : Care should be taken to see that members to be selected have relevant back-ground, experience and expertise, can see all aspects of the problem, and are interested in the best solution.

(4) *Right Chairman* : A Chairman plays a very important role ; he can make a success of a meeting or make a mess of it. He must, therefore, be a person who can inspire confidence, secure contributions of all members, including non-vocal members, and prevent highly vocal members from monopolizing the discussion.

(5) *Proper Procedure for Conduct of Meetings* : The Chairman should ensure that notice of the meeting with its agenda, is sent to all members sufficiently in advance, to enable them to prepare themselves in order to make their contributions. The meeting should be conducted in a business like manner, taking each item for discussion according to the agenda. The Chairman should sum up the discussion and state clearly the decisions arrived at on the items. He should also prepare and send the minutes of the meeting to all members, as soon as possible after the meeting.

(6) *Follow-up Action* : The Chairman should promptly submit the recommendations and decisions of the committee to the appointing authority When the action is taken on its recommendations, the Chairman should communicate it to all members.

Under a good Chairman, and with well-defined terms of reference, an advisory committee can indeed be a valuable instrument for consultation, communication and coordination, and for assisting a chief

executive in arriving at sound decisions. In short, its value lies in simultaneous contributions being made by varions members, in a closer co-ordination effected through personal contacts and praticipation.

Organisational Vitality.

Organisational vitality or creativity depends on many factors but, if one had to be singled out for its exclusive importance, it would be managerial excellence ; this has two main components ; guarding against obsolescence and planning to innovate.

With a continual shift in business perspectives, the opening of new frontiers of new knowledge and better techniques, and increasing demands of society in time with expanding horizons, managers will be continually in the danger of being obsolete ; this has to be consciously guarded against. Absorption of new knowledge, theory, concepts and techniques, on a continuing basis and the ability to use these in practical situations, are the only insurance against obsolescence.

The other factor, so essential for entrepreneurs, leaders and eflective managers, is innovation, which has two broad aspects e.g,

(a) Adaptation to change and conditions,
(b) Creation of new conditions and initiating changes.

Paradoxically, many concepts, methods and techniques of management, run counter to the spirit of change and organisational vitality. A common feature of these approaches is their emphasis on "how not to make mistakes" ; yet mistake is a function of risk-taking and vitality.

With changing frontiers, innovation looks beyond the horizon senses the whiff of wind or perceives the speck of light, then seizes, also creates, opportunities and turns them into a viable, profitable, tangible reality. Innovation has been given a pride of place in competitive management success, by Prof Schumpeter, who equates it as the source of differential profit of competing enterprises.

STUDY NOTE : 4

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Explain clearly the process of delegation and discuss its advantages. What are its pitfalls ?
2. Why are executives generally reluctant to delegate ? Explain critically, with special reference to Indian executives.
   How can executives be encuraged to delegate ?
3. Distinguish between Delegation and decentralisation.
   Explain when and why decentralisation becomes necessary.
4. "The question is not whether to decentralise or not to decentralise : it is a question of to what extent to decentralise". Discuss fully.
5. Distinguish between the line, the staff and the functional authhrity. Account for frequent conflicts between line executives and staff specialists How can the top management minimise these conflicts ?
6. Why is the Advisory Committee system popular with the management of business organisations ? Point out its disadvantages and suggest measures to get over these disadvantages.
7. Managements are often puzaled as to what should be delegated. Tender your reasoned advice in this regard.
8. Write a critically essay on organisational vitality.
9. Write a critical note on Federal Decentralisation.

STUDY NOTE : 5

I

STAFFING

GENERAL

Having designed and developed a suitable organisation structure, the next function of the management is staffing. It involves suitably manning the organisation through proper selection, appraisal and development of personnel to fill managerial positions designed.

It has often been said that more important than machines and money, is the right kind of managers in making a company successful. As William B. Given, a successful American Chief Executive put it, "The future of any business depends more on the people in it than on any other single element in it". A business cannot grow and proper over a period unless it is capable bringing in and developing the right kind of managerial personnel.

I

Manpower Planning : To perform his staffing function satisfactorily : a Chief Executive must develop an executive manpower planning programme. The first step is the organisational planning of managerial needs, that is determination of needs, both in number and in kind. The second step is to take inventory of present talent in order to assess the status of available managerial personnel and to discover undeveloped talent, if any, within the organisation. The third step is to formulate a programme for recruitment, selections and development

Determining kind of Manager / Executives Needed : In determining this need, a chief executive will be guided by the organisation structure, preferably by the ideal organisation structure. A study will show the overall number of managerial positions to be filled in ; this will depend upon size and complexity of the enterprise, nature of its activities, areas of its operations, basis of departmentation, degree of decentralisation, plans for expansion and many other factors

If the organisation already has a detailed organisation chart and/or an organisation manual, it will point only about number of executives needed to staff the positions, but also the kind of person specifically needed to fill each of these positions. This latter duty can be effectively performed only with the help of job description ; a typical job description sets forth, in great detail, duties, authority relationship, contributions expected of the individual holding the job etc. The contents and requirements of a job provide an objective guide to management in selecting the most suitable person for a particular job.

Job Specifications : A job specification states the requirements of a job that is, the demands that a job makes on a job-holder, It is also necessary to know the qualifications which a prospective job holder must possess in order to satisfy the requirements of the job. These are called job specifications ; there are two main job specifications, namely, about experience, and about personal characteristics Of the two, it is relatively simple to draw specifications about experience by analyzing duties to be performed and then establishing length of experience necessary It is far more difficult to outline personal characteristics necessary for efficient performance of the job. One school of psychologists has suggested the following characteristics for selection of persons for junior managerial positions : (1) Intelligence, (2) Analytical Ability, (3) Initiative, (4) Skill in Communication, (5) Urge to Manage and Accept Responsibility, (6) A Sense of Moral Values, and (7) Soundness of Judgement. These are briefly as follows :

Intelligence : There is no doubt that above average intelligence is essential for successful performance of a managerial job. Intelligence, as applied to business, means, according to Chester Barnard, to understand formal aspects of a complex organisation ; to analyze formal relationships between organisations ; to deal appropriately with the combination of technological, economic, financial, social, and legal elements ; and to explain them to others so manifestly and in such logical reasoning and analysis, that the point requires no argument.

Analytical Ability : A manager must be able to approach problems logically. His thoughts must work in a methodical manner, and he must be able to think clearly through complicated problems ; he mu t be able to break a problem in to its parts, and identify and interpret their relevance and meaning.

Initiative : Initiative means that the person is a self starter that he recognizes need for, and will take, prompt action.

Communication Skills : A manager has constantly to communicate, orally and in writing, his instructions, ideas, suggestions, to his subordinates. He must, therefore, be able to speak and write clearly and forcefully in order to influence favourably their ideas, opinious and actions. Another aspect of communication skill which has been only recently recognised is Empathetic Listening.

Urge to Manage : While everybody has a desire to manage because of the material rewards that a manager's job brings, not everybody has the urge to manage. It requires willingness to accept challenges, and to take responsibility for the performance of his snbordinates. It is only them that he will be accepted by his subordinates as their superior.

Sense of Moral Values : A manager's actions has impact on his sub-ordinates, colleagues, and outsiders with whom he comes in contact in course of his work Unless he has strong convictions as to moral values, he cannot expect others to act that way.

Sound Judgement : It is true that a person with high intelligence and some practical experience. is likely to have sound judgement. The emphasis is, however, on "practical", on what will work from a business point of view. A person may be highly inteligent and analytical, yet his inferences may be impractical, as far as they relate to other functions of the enterprise, or to economic and commercial considerations.

Critics of this school point out that through the foregoing qualities are highly important for a manager in decision making, these cannot be precisely measured. Another criticism is that very little can be done to train managers in cultivating or developing these qualities. They have, therefore, put forward a list of such qualities necessary to enable a manager to do his job, namely, to get things done through and with people, and qualities which can be developed with a conscious and serious effort on the part of individual, and through systematic training. These qualities are briefly described here.

Friendliness and Trust : A subordinate likes to feel that his superior knows him and value him as an individual ; he also wants to be sure of sincerity and integrity of his boss. This means easy access to his boss, and an assurance of reliable guidance when needed. In short, a superior who develops a sense of friendliness and of trust in his subordinates, will be able to gain their loyalty and enthusiasm in the performance of their jobs

Support to Subordinates : Subordinates need positive support from time to time in the performance of their jobs ; they need support when they have difficulties, or when there are pressures from higher management ; a subordinate also needs protection when he has made a genuine mistake causing considerable loss to the company ; a subordinate also needs support and hel in his personal problems. A manager who extends such support time to time, will be able to encourage subordinates to improve performance.

Positive Approach : Superiors generally tend to take good points of a subordinate for granted and blame him for his shortcomings or weaknesses. Instead, if a manager praises a subordinate for his good points of commendable actions, and helps him to overcome his weaknesse, she is likely to evoke a more favourable response from his subordinates.

Recognition of Individual Differences : As individuals differ in their temperament and attitude, it is important to recognise these differences and deal with them accordingly. A worker who is highly efficient may be some-

what rough in his general behaviour, while an extremely polite worker may be inefficient. These differences should be recognised and a manager should modify his treatment to suit each individual.

Consistency and Fairness : It is well-known that what upsets a subordinate is not so much his superior's strictness as his inconsistency in treatment. This prevents him from predicting the behaviour of the superior and this may affect his performance. Similarly, subordinates resent unfairness in treatment, undue favours to some, and denial of legitimate rewards to others. A manager who is consistent and fair with his subordinates, will be able to secure their cooperation and loyalty.

Removal of Minor Grievances : If minor grievances of subordinates are neglected and allowed to accumulate, they will feel frustrated and lose interest in their work and this will adversely affect their performance.

Opportunity for Participation : A manager who invites his subordinates in developing alternatives solutions to a problem and asks for their suggestions in implementing final course of action, will develop a sense of involvement in them ; as a result, they will be enthusiastic in achieving the goals.

II
THEORY OF MANAGERIAL SKILLS

According to Robert Katz, Managers require three basic skills to accomplish results. These are : (1) Technical Skill, (2) Human Skill, and (3) Conceptual Skill

This approach emphasises that good managers are not necessarily born ; they may be developed.

Technical Skill : This consists in technical knowledge and practical proficiency in performance of those activitis which a manager supervises. Obviously, this skill is necessary in a greater measure for a shop-floor supervisor or a first-line manager It is a matter of every day experience that a supervisor who has better technical knowledge and greater proficiency, is able to command greater respect and obedience from his subordinates.

Human Skill : At the middle management level departmental heads supervise persons with a variety of technical skills It is, however, neither possible for them to be masters of all these skills, nor is it necessary, for their success ; what they require more is human skill

Human skill means the ability to inter act effectively with people in order to develop them into effective work-groups. Their success, therefore, depend greatly on the degree of cooperation they are able to secure from them ; this requires an ability to understand clearly the attitude of one's own towards others and the reaction it causes in their attitude and behaviour at work. He can then modify his attitude, if necessary, to secure desirable responses from them.

Conceptual Skill : Executives at the top in all organisations are responsible not only for success in the present but also in the long run. For this, they need conceptual skill in great depth Conceptual skill means abiiity to think about the organisation as a whole, to speculate about future trends in the external enviornment and their impact on one's organisation, on its market, and in the light of all this, take momentous decisions which would enable the organisation to improve its position In short, it means ability to deal with abstract ideas, to imagine distant possibilities, on the basis of intelligent speculations, and initiate action with confidence. It is only men with high conceptual skill who achieve notable successes in business and industry.

A merit of the Skill Theory is that it implies that training programmes may be formulated to develop these skills. Many companies in this country have been sending their managers and supervisors to such training programmes e g. by Training Within Industry Centre of the Government of India, and by National Productivity Council and Regional Productivity Councils Indian Institutes of Management, All India Management Associations, and

Administrative Staff College of Hyderabad have been organising three tier training programmes for top executives, Middle-level managers and Supervisors for many years now.

Determining Number of Executives/Managers Needed : Having determined the kind of managerial personnel required for one's own organisation with the help of job specifications and personal characteristics and skills, the next step is to determine how many will be needed and at what time. If the personnel manager is to estimate quantitative requirements of managerial personnel, he should be made a member of top management team entrusted with the task of preparing the company's overall plan for the next year, and for next five to ten years. He will then be in a position to know, in advance, sales and production plans, major organisational changes in objectives and policies, and also possible changes in such environmental factors as government legislation, social climate etc. He will than be in a better position to estimate managerial requirements on a forward basis.

The next step is to ascertain the number and the kind of managerial personnel available at present within the organisation. this is known as taking Executive Inventory. This is not simply counting heads : but it also includes listing of present and potential abilities and aptitudes. This list will include all persons occupying managerial positions at present, and also those operating men who have been recommended by their superiors as having managerial potential

After making a complete list, detailed information about each individual should be gathered from personnel records ; it should then be supplemented and made up to-date by interviewing each. The will help to uncover unknown abilities or motives, and will reveal possible advancement potential.

The final step in making tne inventory involves an appriasal of personnel on the list. It may show that some of the iddividuals are qualified for their present positions but have no potential for further advancement ; others can advance with additional training, while some can advance even now if suitable openings were available.

Loss of Managerial Personnel : It is a matter of common experience that all present managers will not necessarily be available in future. This is due to resignation, dismissal, retirement, physical disabilities. decease or substandard performance. In order to estimate actual number of managerial personnel which will be required in future, it is also, therefore necessary to make an attempt to quantify rate of loss of managerial personnel due to factors such as the above.

Rate of Loss : Retirement is the most common type of anticipated separation, and top management should be aware of the paoblem of retire-

ment, as the retirement age is generally fixed. One method of making it quite visible is to prepare a Retirement Profile ; it depicts retirement times of all managerial personnel and top management thus gets aufficient lead time to select and properly prepare a suitable replacement.

Similarly, losses of managerial personnel due to physical disabilities of substandard performance may be predicted with the help of past records and present indications.

Determination of loss due to other factors is tricky. One possible approach is to try to establish an annual average rate of loss. by department or division. Personnel records for a considerable period may be examined to find out data on losses due to regination, discharge, retirement and death. From all these, predictable losses, as known, may be substracted and the remaining separations may be used in determining an annual rate of loss. Thus, it is possible to estimate the rate of loss of executive personnel duc to known and unknown factors, and this will give the number of persons who will have to be selected and developed to fill in the positions as and when these fall vacant.

III
RECRUITMENT

Having determined the number of managerial personnel needed, as well as the qualities and skills for various positions. the next problem is to attract a reasonably large number of applications for each positions so as to have a choice in selection This phase is known as recruitment, and sources of recruitment for junior managerial personnel may be divided into two categories : (1) Internal, and (2 External.

Internal Source : The policy may be either to promote from within or to allow employees already working in the organisation to compete with outsiders, the final selection depending on their sucess in selection tests. A number of advantages have been claimed in favour of this procecure : it encourages employees to put in greater effort, and to acquire additional qualifications to meet the requirements of the job ; it raises the general level of morale of employees, and leads to better labour management relations. There is, however, a limitation : promotion from within prevents entry of fresh people who may well have better ideas, qualifications and/or experience

External Sourees . These include Advertisement, Private Employment Agencies and Professional and Technical Institutes.

Advertisement in News Papers : At present, this is a widely used method for recruitment of all catagories of personnel, including junior executive It has the advantage of giving wide publicity and thereby inducing a large number of persons to apply for the advertised post ; this gives a good choice for selection If the advertisement is clear and to the point, only those who possess requisite qualifications will apply ; this will save time to be spent in processing and short-listing applications.

Advertisements for middle and higher management positions are often given in journals of Professional Institutes which have nation-wide circulation. They are likely to be read by those for whom they are meant, which is not the case with advertisements in news papers.

Private Employment Agencies : These have come up recently and are used mainly for top management positions which require long and successful business experience. Persons with such experience and holding similar positions are not likely to respond to news-paper advertisements, for they require that their identity should be kept confidential till final selection. Employment Agencies contact such persons individually, carry out necessary investigations, and recommend two or three names. This saves a lot of botheration and time involved in the lengthy process of recuitment and selection.

Professional and Technical Institutes : Personnel managers of large and well-known companies have been increasingly using this source They

inform from these institutes of the vacancies. with full particulars about qualifications and experience, and request them to give required publicity. Later, their representatives visit the institutes and interview a number of applicants ; they may then prepare a short list and invite such candidates for a final interview before a board at the Company's office.

An advantage of this method is that a company gets a wide choice, and more reliable information about the candidates ; in addition, it is relatively cheaper, as only the company representatives visit the campuses and only a small number of candidates is called for a final interview at the Head Office of the company.

Selection Process : The next step is to scrutinize all applications with a view to screening out those who do not fulfil minimum requirements prescaibed and reduce the number of applicants to be called for selection inter views, to a reasonable figure.

Psychological tests like intelligence, vocational or aptitude tests, which are used for slection of operatives or workers, have their uses but have not been found to be wholly suitable for selection of junior executives, as such, candidates are generally graduates and post graduates with high academic merits but not with much practical experience. A technique widely used for their selection, is through interview by a Committee.

Interview by a Committee : This Committee consists of departmental heads and an expert from personnel department The members are supplied with job specifications and they also agree upon the qualities and skills necessary for satisfactory performance of the job. These have been discussed earlier in this Study Note.

Conduct of the Interview : The committee members study the application of each candidate and Summarise all information about him including his family background, academic achievements, extra curricular activities, interests etc This makes it easy for them to decide as to what additional qualities or abilities they are looking for, and which they would like to find out at the interview.

The members then agree on the headings under which candidates are to be evaluated, and the kinds of grades to be awarded. Senior executives, who have considerable experience of conducting selection interviews, have the ability to establish rapport with candidates and discern a lot about their qualities and abilities Immediately after all candidates have been interviewed, the members compare their grades and make their final decision. Generally, two or three names are listed in order of merit for each post for, if for some reason, the first candidates is not able to join, the next one could be invited without loss of time.

The kind of interview commonly suitable for this selection is Patterned Interview, which is a combination of direct and indirect questioning of candidates. In it, what is to be asked is already structured ; the interviewer has his clues and guide-lines to areas which should be probed deeply, and he also encourages the candidate to express his ideas and view freely.

Stress Interview : In the final stage of interviewing, the interviewer makes deliberate attempts of create pressure to observe how the candidate performs under stress. Methods used to induce stress range from frequent interruptions and criticisms of the candidates opinions/to keeping silent for an extended period of time. An advantage of the stress interview is that it helps to bring out important charaeteristics which are difficult to observe in a patterned interview.

Group Discussion . Another method which is being increasingly used for the selection of junior executives in private industry, as well as for the selection for Indian Administrative and Foreign Services, is Group Discussion Under this method, in addition to interviewing candidates separately, eight or ten of them are brought together and are given a topic for discussion ; inter viewers sit at the back and observe how each candidate partcipates in the discussion.

An advantage of this method is that it throws up personality characteristics and managerial abilities of the candidates in a comparatively short while. The presence or absence of such abilities, such as to get on with others, to argue logically, convincingly and carry other with yourself, to appreciate ideas of others and to make use of their ideas is clearly revealed in a group discussion. In patterned interview, a candidate may suppress his real personality for a short time during the interview and try to impress by his physical personality and verbal answers ; but in group discussion, he cannot pose to be different than what he really is, and his real personality asserts itself and is revealed in his attitude and behaviour during the cross-fire of a discussion

Interviews : Limitations

(a) An interview may be vitiated by certain preconceptions or prejudices of interviewers, for few people are without bias of any kind ;

(b) Answers to questions, however smart may not necessarily reveal the "real man" ;

(c) Appearances may be deceptive : a candidate good at an interview, may turn out to be a faliure on the job.

Selection of a good candidate : It may be noted as a general rule that no single method appears to be entirely satisfactory or suitable in all cases. A good selection usually emerges during the cross-fires of a combination of the foregoing methods.

Executive Development (Training) :

Before the Second World War, it was generally believed that one could learn to manage only by managing ; that given a little more than average intelligence, and common sense, one could learn to manage on his own from one's own experience. However, with increasing complexity in modern business and in changing environments it had to operate, a manager's job began to demand certain knowledge, skills aptitude and attitude and experience alone was not enough. It was necessary to supplement experience by training, for whilst experience is no doubt an effective teacher but it takes such a long time to put its lesson that a well developed executive may be one who is about to retire. And then again, not every one learns from experience ; some need help to understand and profit by experience. With rapid development in recent years, in fields, inter alia of automation and electronics computers, experience is grossly inadequate for developing the knowledge and skill required of the modern manager. The conclusion is, therefore, inevitable that today's managers must be developed in ways other than through experience alone.

Probably, the first training programme was developed by Prof. Roethlisburg of Harvard Business School : one important conclusion was that productivity of a group of workers depends on the attitude of the supervisor and his skill in handling his men. He further identified this attitude as friendly and democratic, and this skill as human relations skill, and formulated his Supervisory Training Programme to help supervisors to develop necessary attitude and skill. It was, however, during the Second World War ; that at first British Government, and a little later Government of the U. S. A. realised the urgency of training supervisors in large numbers and so, Training Within Industry (T. W. I.) Programme was developed, and thousands of supervisors were trained under this programme, It was generally admitted that improvement in productive efficiency achieved during the War was due, to some extent to trained supervisors.

Since then, company managements began to show great interest in executive development ; this encouraged social scientists to formulate programmes and techniques for training managers at all levels—junior, middle and top - to help them to develop. As a result, there are now numberous executive development programmes which may be grouped into two main categories : 1) On-the-Job and (2) Off the Job. On the-Job programmes include : (1) On-the-Job experience and Coaching, (ii) Position Rotation, (iii, Special Projects and Task Force. and (iv) Committee Assignments.

Off-the-Job methods include : (i) Special Courses, (ii) Case Methods, (iii) Role Playing, (iv) Sensitivity Training, (v) "In—Basket Exercises", and (vi) Management Games. These are briefly described here.

On-the-Job Experience and Coaching : It has been universally recognised that learning by experience is an indispensable method for self-development. However, it is also conceded that as sole method, experience is wasteful, time consuming and inefficient. Coaching on the job by one's supervisor has been found to expedite the process of learning.

This involves assigning the trainee to a particular job ! but instead of leaving the trainee to swim or to sink, that is, to learn from his own experience and mistakes, his superior is given a definite training responsibility. The advantage of this is that the trainee is motivated to learn faster, and to transfer his knowledge to practice. Its weakness is that the superior may neglect this responsibility, either because he is over burdened or he lacks teaching skill.

Position Rotation : A major objective of position rotation is to broaden the background of a trainee in business. On the job experience and coaching tend to be narrow, for a trainee acquires knowledge and skill in one job It he is rotated periodically from one job to another, he acquires a general background. Advantages of planned rotation are : (i) it provides a general background ; (ii) it demonstrates natures and significance of management principles, since a trainee finds that he can transfer learning from one job to another : (iii) training takes place in a practical situation, (iv) it stimulates competition among trainees, (v) by exposing a trainee to the problems and difficulties of another it helps to developa cooperative attitude.

One disadvantage of this method is that productive work may suffer because of disruptions caused by frequent changes ; another drawback is that a trainee may develop only a limited amount of skill because of a comparatively short period of training in each position.

Special Projects and Task Assignments : A special assignment is a highly useful and flexible training method. A trainee who has been found weak in certain area is assigned a task in that area. For example, a trainee may be asked to develop a system of cost collection in a particular area ; this would not only provide valuable experience to the trainee in systems analysis and allied fields, but would also inculcate in him importance of cast, and in inceasing his awareness of organisational relationship with other sections and departments.

At times, a task force is created consisting of a number of trainees representing different functions in the organisation. Through this assignment trainees not only acquire intimate knowledge of the assigned subject but also learn how to work with others having different points of view.

Committee Assignments : Serving on a committee, as an aid to executive development, is of considerable educational value for an young executive. Working with a committee of experienced managers, he becomes acquainted with many problems and different points of view of the managers

present. He has an opportunity to observe how they defend their points of view, and how they adjust themselves to overall needs of the enterprise. Service on committees has a broadening influence, as problems under deliberations usually have causes and consequences far exceeding any one member's special area. Committee experience warn a young executive against believing that his point of view is always right and also shows him importance of having an open mind on a complex issue. More Specifically, if a yound executive seems to be un appreciative of positive contribution of another department, his appointment to a committee of members of that department, may lead to a change in his attitude and may help him to develop a balanced perspective.

Off-the-job Methods : Special Courses These courses require trainees to devote their entire time for development. In our country, in 1905's, Government of India authorized a few Universities to start part-time, post-graduate management dipoma courses in Business Management and Industrial management for junior executives and exhorted companies to sponsor their executives, who did not have formal education in management, to these courses. Later, Universities began to offer full time master Degree Conrses in Management, for fresh graduates on their own, and such M B.A's began to be recruited by business organisations to junior managerial positions. However, with rapid advances in technology of production, management, marketing, finance, personnel relations etc companies began to feel the need for reorientation of their middle level managers in different functional areas In response to these Indian Institutes of Management Management Associations, Administrative Staff College, National Institute for Training in Industrial Engineering, Productivity Councils, began to offer short-term but fulltime, residential courses for varying periods in various functional areas.

The main advantage of these off-the-job courses is to provide a theoretical foundation for sound management practices and to acquaint trainees with latest developments in the areas of their interest. Another advantage is that being away from pressures and stresses of daily work life, executives are in a better mental state to understand and assimilate what is being offered The third advantage is that they get opportunities to meet their counterparts from competing and non-competing organisations and can learn many things which no books can tell.

An apparent drawback of this method is that during the period in which an executive is away, the organisation will lose the benefit of his expertise. However, this loss would be more than compensated by benefits which the company would gain after the executive returns to the company refreshed and enriched.

Case Methods. This method has been used, as a substitute or supplement to the lecture method. It was developed by professors of Harvard

Business School, who were dissatisfied with the hitherto universally used method, viz. the lecture method in colleges and Universities. They were convinced that mere act of listening to wise statements and advice does not do any good ; that no amount or information, by itself, can improve insight or judgment, or increase ability to act wisely under conditions of responsibility. They firmly believed that process of learning demands dynamic praticipation of the learner which is completely missing in the lecture method. They, therefore developed the case method, which dramatises by opening the way to make positive contributions to orginal thinking and thereby prepare participants for action.

A 'case" in Case Method is typically a "record of a business issue which has been actually faced by business executives together with surrounding facts opinions, and prejudices upon which executive decision had to depend", is presented to group of trainers for analysis and solution.

One of the basic objectives of the case method is apart from solving the problems presented, to develop a trainee's power of analytical, synthetical and cross disciplinary thinking. This is sought to be achieved through careful study and active participation in a large number of case discussions through-out training period. As a result, a trainee learns to sort out facts from opinions, trivial from significant, to analyze the date, to judge inter-relationships, to synthesize the evidence, to organise his thoughts logically, to present them coherently and to defend them. At the same time, he develops openmindedness to appreciate different and opposite view points.

Advantages of Case Method : In addition to the foregoing

1. The is a greater degree of realism in the information presented ; being some-what of a biographical nature, it stimulates interest
2. It gets trainees actively involved in the case discussions.
3. It helps trainees to develop their skill in separating important and from unimportant details, to identify problems and develop satisfactory solutions.
4. It enables trainees to develop human relations skill in understanding and interpreting attitudes, feelings and reactions of others.

Limitation of Case Method :

1. To achieve its objectives, trainees have to be exposed for a sufficiently long period.
2. Preparation of relevant, meaningful cases is a difficult task, as business organisations in India are usually reluctant to part with information about their problems even past problems and/or personalities.
3. Effectiveness of training depends largely on competence of the discussion leader.

4. It has been criticized on the ground that by giving trainees all the information they need, it deprives them of the opportunity of developing skill in locating sources of Information which is so very essential in real life.

Role Playing : An objective of the role playing method is to increase trainees' skill in dealing with people It is, therefore, of great value to line managers and sales people, who have to achieve results through with people.

In this method, a conflict situation is artificially construced, a situation more or less similar to what line managers face in their work-life ; for example, as between a foreman and a problem employee One of the trainees is given the role of the foreman, and another that of the workman Each is provided with information about himself, the company the department and about the other ; the worker is said to be highly skilled, who can easily get a job elsewhere ; his attitude, however has not been good ; he has been found to be careless about cleaning his work-place and has been often coming late to work This has began to affect other workers and the foreman must talk to him about it The worker is given a similar set of instructions, and a basic attitude to assume during the interview with the foreman. Role Playing them commences with the foreman calling the worker in for the interview.

This method has its advantages. In it, a trainee is brought face to face with a live situation in managing men, and is required to try certain approaches and see how they work. The interview may be taped and he is given opportunity to listen to his performance and note its strength and weakness. As participants in a role playing session are relatively free, they learn to adjust to unforeseen circumstances and responses.

A variation of role playing is Re-used Role, in which participants reverse their roles ; the foreman now becomes the worker, or the salesman becomes the customer, while the former worker and customer take the roles of foreman and salesman In such a session, participants learn to understand the other point of view which is so essential for finding satisfactory solutions to inter personal problems.

Sensitivity (T Group) Training : An objective of this method is to increase trainees' sensitivity to group processes and more particularly, to the impact of his own behaviour on others. The group is usually small and the situation is unstructured, in the sense, that there are no superior subordinate relationships. The instructor does not teach ; he only helps participants to achieve a greater awareness of relationships to each other. There are no formal authority relationship among the members of the group, no agenda, and no specific training goal other than that of learning about ongoing human behaviour. The discussion leader just invites the participants to talk about "whatever you want to talk about", and sits in the background.

As there is absence of customary relationship, there may an initial period of frustration. Gradually, members begin to warm up and express themselves frankly about speakers and their statements. The dignified manner in which one man takes pride may be openly referred to as "pompousness" ; a forceful speaker may discover, to his disappointment, that he is regarded as authoritative For, a manager's behaviour is not how. he thinks, he behaves, but how others, particularly his followers, view his behaviour.

Thus, participants are helped to see unintended consequences of their behaviour. If a participant discovers that his attitude and behaviour invariably give rise to undesirable reactions on the part of others, he may try to modify them to evoke desired responses from colleagues and subordinates

"In-Basket" Exercises : These Exercises consist of giving participants back ground information such as a company's history, its organisation chart, the position that a participant is asked to fill in. a financial statement and a calender. A set of problems included in the exercise have a certain logic, and each problem is related in some way to the master plan of the exercise, so that the end result will be an integrated whole. The problems consist of actual memos, letters, reports, and documents that make up an executive's in coming mail. The trainee is expected to study these and write down with reasons, actions that he would take to solve the problems.

The final phase consists of each participant explaining why he acted in the way he did The discussion leader then explains possible consequences of different sequences and the actions decided by the participants. From this, they are expected to appreciate importance of logical thinking, inter-relationships of organisational elements, and of sound decision-making. The problems do not give all details but leave areas of uncertainty ; this is exactly as business situations actually are and trainees are expected to fill the vacuum and come to conclusions.

Management Games :

In this method, an actual business situation is presented as a "model" and participants are given roles of competing organisations Problems are set under simulated real-life business situations, components of such problems observing certain mathematical relationships.

Decisions taken by the groups are processed mathematically (using computers) and the feed back results are subjected to further considerations for second stage decisions. A performance report is generated periodically. which reffects success or otherwise of decision-making by the participants.

This method, in addition to having the common advantages of Case Study method has certain special advantages : the objective (often computerised feed-back demonstrates the result of the competetive decision-making, very quickly.

Limitations include (i) this expensive and time consuming (ii) Non-mathematical managers may find it difficult to adjust to the mathematical bais of the technique (iii) Problem of reproducing exact real-life situations through simulation processes.

TECHNIGUES FOR EXECUTIVE DEVELOPMENT

Theory of Management Games :

The quantitative techniques for decision-making discussed so far are relevant primarily for the problems that are relevant to the organisation. A 'Game' is a mathematical model which has its primary application to the relationship among independent competing units such as two or more firms selling the same product in a competing market, or between a firm and a representative union negotiating for a periodic wage revision This new approach to decision making was developed by professors John Newman and Oscar Morgenstorn who presented it in their book, "Theory of Games and Economic Behaviour". The theory of games attempts to provide an answer to the Question, What may be considered a rational cause of action for an individual confronted with a situation whose outcome depends not only on his actions but also upon the actions of others who in turn are also faced with a similar problem of choosing a rational course of action" ? The term 'game' in management games represents a situation of conflict between two or more parties. A situation to be described as a game must pass the following characteristics :

1. The number of participants must be finite, and at least two.
2. There must be a conflict of interest between the participants.
3. Each participant has available to him several choices as to his appropriate action
4. The rules governing their choices are specified and are known to all participants.
5. Each participant must choose a single course of action before the game begins, and he cannot change to another course after the play starts.
6. The outcome of the game is affected by choices made by all the participants, the choices are to be made simultaneously so that no participant knows his opponent's choice until he is committed to his own.

7. The outcome of all specific acts of choices by all is known in advance and is numerically quantified. Each outcome determines a set of payments—+ve or –ve –, one to each competitor.

The simplest type of game is known as two persons zero sum game in it, there are only two parties and the sum of payments to the two competitors is zero (constant) for every possible outcome of the game. In other words, in such a game, the sum of the points won by one party is exactly equal to the sum of the points lost by the other, that is, one player wins at the expense of the other.

An Example : The present agreement between the management of Electronics India Ltd. and its Union will expire in a few months and a new agreement will have to be negotiated preferably before that date. A management team consisting of the managing director, the personnel manager and the finance manager has been set up to formulate a strategy for the coming negotiations. This committee has decided that in the light of the past experience, it can adopt any one of the following four strategies :

C1 = All out attack, hard aggresive bargaining,

C2 = A reasonable, logical approach,

C3 = A legalistic approach, and

C4 = An agreeable conciliatory approach.

The problem is which of these strategies should the company adopt. The answer to this question will depend upon the strategy which the union is going to adopt. That knowledge is not available However, knowing the history of the union, it may be surmised that the union is considering the following four strategies.

1. U1 = All out attack, hard aggresive bargaining,
2. U2 = A reasoning, logical approach,
3. U3 = A legalistic approach, and
4. U4 = An agreeable, conciliatory approach.

The management committee can now consider the consequences of each of its actions conditional upon the union adopting anyone of its strategies. With the help of an outside consultant it constructed the following table :

Company Strategies		Union Strategies conditional cost to the Company (In lakhs of Rupees)		
1	U1 Hy	U2	U3	U4
C1	+ 20	+ 25	+ 40	– 5
C2	+ 15	+ 14	+ 2	+ 4
C3	+ 12	+ 8	+ 10	+ 11
C4	+ 35	+ 10	+ 5	0

If the company adopts strategy C1 and if the union adopts strategy U1, the final agreement will involve an increase of Rs. 20 lakhs to the company towards wages and other benefits. If the union adopts strategy U2 in response to the company strategy C1, it will secure an increase of Rs. 25 lakhs. Strategy U3 is even better for the union against company strategy of C1, as it will secure an increase of Rs. 40 lakhs, However, if the union adopts strategy U4, it will end up with a loss of Rs. 5 lakhs.

Now both the company and the union must decide on the crucial strategy before negotiations begin as an attitude cannot be taken and then changed when the other party commits itself. For this, the company seeks the advice of a consultant. The consultant informs the company that the union is also considering alternative strategies and has constructed a table which does not vary significantly from that of the company. He has also provided the union with comparable information.

Selection of the Optimum Strategy: Given the above information, what will the bargainers do? The company would prefer the union to be conciliatory (U4) in response to its policy C1 with the result of a reduction of Rs. 5 lakhs in its wage bill But, it is quite likely that in response to the Company's C1 strategy, the union may adopt U3 strategy and extract Rs. 40 lakhs more from the company. The second best solution from the point of the company would result if both adopt C4 and U4 strategies. But if the company chooses strategy C4 and the union adopts strategy U1, the Union will win an increase of Rs. 35 lakhs.

The union experiences the some difficulties : If it adopts strategy U3 in the hope of an increase of Rs. 40 lakhs, the company might adopt strategy C2, which would yield only Rs. 2 lakhs more to the union. It is, however, clear that the union will never adopt U4 strategy, it can gain more from U1, no matter what strategy the company may adopt.

Minimax Strategy : A rule which the participants may adopt in such a situation is the Minimax strategy. The Company might adopt that strategy which minimises the maximum wage increase it would have to grant regardless of the action of the union. If the union adopts this rule, it would choose that strategy which will maximise the minimun wage increase Accordingly, the minimax strategy for the company is C3 with a maximum wage increase of Rs. 12 lakhs the maximini strategy for the union would be U1, with a minimum wage increase of Rs 12 lakhs. In short, it is an equitable solution in this situation In the game theory 12 is designatred as the value of the game.

Another type of Game : This game represents a situation of conflict between two or more independent firms manufacturing the same product and competing with each other in the same market.

For such a game, it is necessary to prepare a model of the business situation with a group of cause and effect formulae that would help determine the results of each move made by the players.

The game is essentially quantitative in character and is not designed to deal with human values which are qualitative.

In designing the model, first a list of key decision areas is prepared. From this list, a limited number of areas-five or six—which are considered as the key areas in the business as a whole, and which are typical of situations requiring top management action. These areas are : production marketing, pricing, research and development, capital investment, and market research.

The next step is to establish certain relationships of these areas and bring them into the model These relate to certain general assumptions such as, (a) the quantity sold varies inversely with the price, (b) expenditure on advertising will increase the sales of the product ; these are built into the model.

These assumptions together with the decisions made by the players are fed into a computer which processes the data and reports the consequences of their decisions and actions to the players.

The Game Procedure :

1. The players are grouped into teams, each team representing the top management of the group.

2. Each team organises its company, that is, it elects its Managing Director and the other operating Managers.

3. The initial operating statements are distributed to each team. They include company's assets, production capacity, unit cost of production, opening inventory, the price of its product, cash in hand etc. This financial data is the same for each team to begin with.
4. The teams are allowed to buy market research information at predetermined prices.
5. The teams are given a fixed time, say one hour or so to make their decisions at intervals representing a quarter of a year.
6. The decisions of each team are fed into the computer which with the help of the pre-determined formulae, determines the results of the decisions of each team. These results are then returned to each team in the form of quarterly operating reports. After reviewing its performance as shown in the reports, each team makes a fresh decision for the next quarter. This procedure is repeated for the next three quarters, thus completing one year.
7 At the end of the game, a critic session is held to appraise the performance of each team.

Merits of the Management Games :

The central problem of management development is how to equip management trainees and junior managers with the breadth of vision of company wide operations and train them to take decisions at higher levels of management. The traditional management training methods such as lectures, seminars, reading of management literature, committee work etc can provide an intellectual understanding of the problems involved but they cannot give a trainee manager a personal experience of the process by which the elements that enter into top management decision are selected, analysed and applied. The American Management Association, therefore, developed the "Top Management Decision Gaming Approach" to the problem of simulating the decision-making process. It has claimed, on the basis of experience of a large number of American companies the following benefits of this approach :

1. Business games in the department or the institute of management are like a laboratory in a science college, or a mock parliament in a Department of Politics. or a mock trial in a Law College It creates great emotional involvement for the participant and takes them to closest point of the real world of business.
2. They provide a vivid introduction to the business scene The participants can see the enter-relations of the different functional areas and gain experience in viewing a problem from the point of view of the company as a whole

3. They offer a dynamic approach to the decision making process. The participants get the feed back of results of their decisions. They can see the impact of their decisions, that is, how the performance of managers is reflected in the company's Profit and Loss Account.

4. Participants acquire an "Intuitive feel" for the process that will enable them to act more quickly and more effectively when the need for decision arises in their own job.

5. Apart from the quantitative decisions to be made in the different functional areas of business, participants are exposed to such human aspects of management as communication, condination, exercise of authority, leadership etc.

6. By exposing functional managers to an integrated approach to making company-wide decisions, they help make a generalist out of a specialist.

7. It is an excellant medium for learning by doing, it is far superior to the lecture and discussion methods in creating an understanding of the subject matter Trainees take part directly in solving problems, thus learning by doing. This kind of learning "Sinks In".

IV

MERIT RATING

Industrial Engineers have developed a number of methods for systematising merit rating of employees ; these include : (1) Ranking, (2) Grading, (3) Graphic Scale, (4) · Forced Choice Description, and (5) Critical Incidents Method.

Ranking : This is the oldest and the simplest ; according to it, each employee is compared with all others doing the same job and is given a particular rank order in decending scale It merely states that A is superior to B, that B is superior to C, and so on, but it does not say, by how much one is superior to the other. Further. this ranking is based on mental comparison by a rater, and so it is not possible to produce objective proof as to why one has been ranked superior to the other.

Grading : In grading method, a definite number of grades or classes are first established and carefully defined, as in government service ; qualifications, experience and standards of performance for each class are carefully defined. A rater evaluates performance of each individual against these and places him in one of these classes.

Graphic Scales : In this method a number of factors, depending upon the category to which an employee belongs, are selected for measurement. These are : (1) Education, (2 Experience, (3) Initiative. (4) Physical demands, (5) Mental demands, (6) Responsibility for equipment, (7) Safety, (8) Work of others, (9) Working conditions, (10) Hazrrds etc. The factors and their degrees are marked on a graph paper and a rater checks on this scale where he thinks the employee belongs ; this method gives qualitative evaluation and a rater is in a position to prove his decision. It is however, a complicated method and required long experience and considerable skill on that part of the rater

Forced Choice Description : This method tries to reduce the element of bias on the part of a rater, inherent in the earlier methods In this method, a rater is forced to choose between descriptive statements of apparently equal value ; he is required to select, out of four or five statements, one which is most characteristic of the candidate, and one which is least applicable to him ; his evaluation is then checked by referance to a secret score-key In this way, any personal bias of rater is eliminated.

Critical Incident Method : This method was developed by research scientists in American Armed Forces during the Second World War. The theory behind this method is that there are certain key acts of behaviour which differentiates between success and failure on a job ; these acts arise out of the incidents which occur in the performance of a job. A supervisor is required

to take note of such typical or critical incidents, and record performance of his subordinates in these incidents. An experienced supervisor knows what type of action or behaviour leads to success, and which to failure. A study of actions of a subordinate in the critical incidents during a period of say, six to twelve months, would enable a supervisor to rate that employeee correctly.

Performance Appraisal :

A basic value of systematic performance appraisal is that it provides information of great assistance for taking decisions about promotion to junior executive at higher levels. It provides this information in advance of the time when it may be needed, thereby avoiding spot judgements when a decision must be made. Further this is not coloured unduly by events which have happened most recently or by only those that an appraiser can remember In addition, a systematic approach provides information in a form that readily permits the making of comparisons, for all persons have been appraised on the same basis and in the same manner. It has been found that records established by systematic appraisal are of great value in backing up decisions which have been challenged.

Systematic appraisal uncovers deficiencies and weaknesses of individuals and thereby inentifies training needs of employees to develop suitable training programmes for their development. It addition, it serves to stimulate and guide some individuals in their efforts towards self development

Finally, requirements for periodic and correct appraisal, compels a superior to do a better job, as they know that their appraisal must have a sound basis, for it has to be communicated to all concerned.

Criteria for Measurement :

The next problem is selection of criteria against which performance is to be measured or evaluated. As a rule, these criteria should be kept at a minimum in order to make it manageable and not too a cumbersome for a superior. Similarly, it is advisable to use a minimum of degrees of achievement ; the minimum degrees, however, should be enough to provide sufficient choice to an appraiser, and should preferably be four or six (not 3 or 5), so as to prevent an appraiser from setting for the middle or average degree of achievement.

Among the factors most frequently used in appraisal are about performance on the job. They are briefly described here.

1. *Knowledge about the Job :* This to be evaluated, not in terms of high academic qualifications or years of training and experience, but in terms of results achieved with the help of his knowledge.
2. *Cooperation* : It refers to his ability and willingness to work in cooperation with his superiors and subordinates ; this includes maintaining

harmonious relations with others, avoiding friction with associates, and actively participating as members of a team.

3. *Judgement* : It considers his ability to grasp a situation, think clearly, and develop correct pragmatic and logical conclusions.

4. *Management Qualities* : This refers to the ability to achieve maximum results with minimum resources. It considers whether an executive had managed his subordinates in such a way as to ensure the most efficient use of their individual and combined abilities ; whether he had systematically analyzed work methods and controlled resources ; whether he had developed potentialities of his subordinates through coaching on the job and assigning tasks of progressively greater responsibilities.

Leadership : It is an ability that requires different qualities in different situations ; the key to appraising this factor is the demonstrated ability in organising and securing co-operation of subordinates in directing their efforts effectively in particular job situations.

Communication Skills : This is effective ability to present ideas orally and in writing. It is universally recognised that performance depends in successfully communicating. to subordinates and superiors, through orders, briefings and reports. This is to be evaluated in terms of clarity, brevity and effectiveness of oral and written orders. Communication skills also include ability for empathetic listening that is, listening in such a way as to encourage a speaker to talk freely and frankly.

Promotion Potential : An objective of performance appraisal is to discover whether a subordinate has capacity, from the point or long range development, to handle jobs of increased scope and responsibility This involves ability to learn rapidly, self-improvement efforts, special abilities and personality.

Additional Factors : In addition to the foregoing, where an appraiser observes other relevant factors such as initiative, adaptability, creativity, etc, he should make a record of these in a suitable manner.

Appraisal Interviews : Evaluation, whether positive neutral or negative, can ouly be useful if it is communicated to an employee through periodic interviews. Appraisal interviews serve a number of purposes, such as :

(1) They provide feed back to an employee which can him to beetter his performance in future.

(2) They help management to know problems and difficulties experienced by subordinates in discharging their responsibilities and also their suggestions to remove these difficulties.

(3) They help management to ascertain and assess training needs of individual employees.

Three types of appraisal interviews have been suggested, each with a slightly different emphasis on objectives :

Tell and Sell Interview : The purpose is to communicate to an employee evaluation of his performance, to get his acceptance for it, and to draw-up a plan of improvement for him It assumes that employees have some deficiencies and so some of them may resent being told about these deficiencies, some may question rater's evalution, or may not agree with his suggestions for improvement. The rater, therefore, must have patience and understanding and further, sensitivity to employee's resistance and ability to convince the subordinate about his evaluation and subsequent remedial measures without using his positional authority.

Tell and Listen Interview : Its purpose is to communicate the evaluation to the employee and then to listen sympathetically to his reactions to it. The first part of the interview covers strength and weakness of the employee and the second part explores his feelings about the evaluation As the rater listens to the employee, there is less fear in his mind about annoying his superior and incurring his displeasure ; there is, therefore, probably less resistance from him to suggestions of the superior, and the atmosphere throughout can be friendly. As a result, a positive relationship can develop between the two

Problem-Solving Interview : In this interview, the purpose is not appraisal but development of an employee The rater, therefore, takes himself out of his usual role as a judge and puts himself in the role of a helper. He does not point out areas of improvement, but stimulates an employee into thinking about improving his performance. This he does by skilful questioning ; he would ask such questions as the following : Can your plan deal with emergencies ? Would you have your colleagues participate in your plans ? Do you anticipate any problems in the changing market ? In this way the rater invites him to evaluate his own ideas and plans, and also modify them or even reject them, if necessary.

V

SHORTAGE OF MANAGERS

Studies have shown that there is a shortage of good managerial manpower, in developing countries, specially in the top ranks. This shortage has been due to a number of factors, such as :

Expansion in size and increased complexities of business enterprises ;

Number of managers needed increased faster than businesses ;

Progressive complexity and difficulty in the task of managing ;

Increased tendency of executives to forsake their old jobs and move to more challenging assignments elsewhere ;

General lack of facilities in management education, development and training ;

Increasing number of young people who have intellectual ability and training to manager, no longer seem to have the motivation to manage. John Miner, in his studies of various samples of young American business manager, found a surprising lack of motivation to manage ; he based his measurements on such factors essential to managing, as (i) a favourable attitude towards authority (ii) desire to compete (iii) an assertive behavioural pattern (iv) a desire to exercise power (v) a desire for a distinctive position and (vi) a sense of responsibility.

Furthermore, Miner found that more experience in managing did not appear to sharpen these qualities and recommended that special educational efforts be undertaken if the will to manage was to be developed.

HUMAN RESOURCE ACCOUNTING

Human Resource as an Asset : An asset may be defined as a future service potential of a factor of production. Therefore, if a human being is capable of providing future service potenrial, clearly a case can be made for treating him as an asset Human resource costs are saerifices incurred by the firm in obtaining services which yield benefits ; such costs which yield current benefits may be treated as expenses, and those which yield future benefits may be regarded as assets.

Human resource was regarded as an asset as early as 1890, by no less an authority than Professor Alfred Marshall, father of classical Economics, And yet, even today, no business enterprise shows it as an asset in its balance sheet. A number of arguments have been put forward in support of this practice, one being that it is not owned by business entity However, Baruch Lev and Aba Schwartz point out that " the labour force is constantly associated with the firm, and it can be constructively regarded as being owned by it" Roger Hermanson, in his boak, "Accounting for Human Assets" argued that an appropriate criterion for an asset, is not legal ownership but an operational right of the enteryrise to receive benefit from the resource ; and human capital fits this criterion.

Another argument is that there is uncertainty relating to the expected benefits of human resource expenditure However, Bikki Jaggi, in his article, "Human resources are Assets", in Management Accounting of February, 1976, argued that there is this uncertainty, to some extent, with all assets and that human resources are similar to any other investment in this regard.

The report of the American Accounting Association's Committee, appointed to prepare a statement of Basic Accounting Theory, states : "A conversion is a recombination of assets sources reflecting the production of new utility. Expenditure and other costs devoted to such activities as research and development, personnel recruitment and training, and marketing campaigns often involve an element of future usefulness and are examples of conversions that would be recognized if quantifiable and verifiable". It may perhaps be concluded from these arguments that an expenditure on human capital also may be treated as an asset and therefore its cost may be capitalized and not treated as an expense.

It was R Likert, a famous, social scientist, who suggested to an American Corporation. in 1968, to introduce Human Resource Accounting. Prior to this, costs of recruiting, hiring, training, familiarization experience and development of an employee were treated as expenses and written off in the year in which they were incurred In Professor Likert's view, these were fixed costs incurred every time a new employee was engaged, which did not render immediate return ; instead, the return was spread over the time the employee stayed with the company, and therefore these costs should preferably be capitalized and amortized over the entire period

Eric Flamholtz, in his book "Human Resource Accounting" (1974, suggested a method of reflecting a value of the "Human" asset, as an entry in the Company's balance sheet

David Watson in his article 'The Art of Putting People on the Balance Sheet' in the March 1978 issue of the Journal of the Institute of Chartered Accountants in England and Wales, claimed that Human Resource Accounting (HRA) can be useful to management and other groups, such as, share holders and employees.

Uses of HRA for management: It helps management in—

(1) Planning of its human resources in the short medium and log term by high-lighting the strength and weakness in its labour force.

(2) The evaluation of staff by the use of measnres of staff performance.

(3) Appraisal of Projects by recognizing qualitative aspects of involvement appraisal at present neglected.

(4) Highlighting possible changes needed in recruiting policies ; for example cost of hiring and training of new employees may be very high, leading to changes in policy of reducing labour turn-over.

(5) Providing information at present hidden, for example, in a cost reduction programme, adverse employee-attitudes could come to light

(6) Improving profitability and decision-making in a firm. This may result from a motivated labour force which feels that the firm cares for them if it goes to the trouble of providing an employment report.

(7) Controlling labour force costs, for example, recruitment, training, absenteeism, disputes etc,

External Uses of "HRA" : Share-holders, potential investors and creditors could use this information for evaluating leadership of the management group for achieving profitability or other allied goals of the enterprise.

What costs may be Capitalized : Capital components of investment in human resources may be those costs incurred to locate and train an individual for work within a particular firm. This is similar to the cost basis for other assets ; for example final costs of a fixed asset includes cost of transportation, installation and other costs involved in getting it ready for its intended use.

Original capital costs may include such items as recruiting, selecting, placement, orientation, and on-he-job training Some of these costs are direct ; that is, they can be traced directly to the activity (e g trainees' time spent on-the-job training. Others are indirect (e g. administrative expenses), they cannot be traced to the activity and will, therefore, be allocated on some reasonable basis.

Below is a brief list for some cost items that might be included in original cost of acquiring and improving work force of a firm :

1. *Recruitment Costs* : These are the costs which are incurred to indentify possible sources, both inside and outside the organization ; they include (1) advertising (2) campus recruiting, (3) employment agency's fees, (4) entertainment, (5) travel, and (6) an allocation of administrative costs.

2. *Selection Costs* : These include the costs of (1) interviewing (2) testing (3) administrative costs of processing applicants ; such costs incurred on individuals not selected and hired may be apportioned to those who were hired.

3. *Hiring and Placement Costs* : Travel allowances paid to select employees and their expense for moving to firms' place, come under this head.

4 *Orientation Costs* : These costs include those incurred to familiarise employees with personnel policies, company products. facilities etc.

5. *On-the-Job Training Costs* : A part of the Trainee's salary for the period of training comes under this heading, togethe with an agreed proportion of other training expenses.

Trainee's Time Costs : **These include a part of the trainee's salary**

7. ***Lost Productivity during Training*** : **While learning a job a trainee causes a fall in productivity of fellow-workers, part of the salaries of these workers amount to lost productivity, and may be included under this head.**

8. ***Development Costs*** : Cost incurred to increase the individual's capabilities in areas beyond immediate technical skills required by the position, for advancement, constitute development costs. Fees and other expenses incurred in attending management seminars. University or Management Institute's training programmes, are in this category.

Human Resources Accounting :

With regard to the question of capitalising an appropriate proportion of human resources costs in accounts, it should be noted that so far, in this country, there has been no law, neither there is any uniformity of views or of practice However, most of current practices favour treating majority, if not all, related expenditure as revenue.

It is emphasised that, in the country, as in many others, the present law does not require the value of the "human" asset to figure in a Company Balance Sheet This inject an element of unreality into the quality of the balance sheet and also the auditors' report stating that it shows a "true and fair view" of the company's state of affairs on a certain date. For, say with two Companies earning the same profit but one with a highly skilled and well motivated team of managers and the other with a traditional managerial team, —the value of their stock in the open market, will not be the same. Creditors and investors, before dealing with a company, will carefully examine the background, performance and reputation of the team that manages a company, for they know that, in the final analysis, it is the management that makes or breaks a company.

In fact, current practice tends to create something in the nature of a "secret reserve".

STUDY NOTES : 5

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Explain the importance & procedure for managerial man-power planning in industry.

2. What qualities and skills are necessary for a manager ?

3. Describe critically different methods for selection of managers.

4. Discuss critically "On the job" and "Off-the-job" methods in relation to executive development programmes.

5. Write notes on : (a) Position rotation (b) Committee assignments (c) Case Methods (d) Role playing (e) "in-Basket" exercise (f) Management Games.

6. Explain fully the objectives of appraisal of performance of managers. Discuss critically different methods in use for performance appraisal.

7. Write a critical essay on Human Resource accounting.

8. What are the reasons for manager-turnover ? Suggest ways of combating this phenomenon.

9. Discuss critically and with reasons, the general problem of shortage of managers. Indicate remedies that you suggest in this regard

10. "Random and ad-hoc recruitment is perhaps the most wide-spread fault of staffing". Critically examine this statement and suggest a recruitment plan for a business enterprise.

STUDY NOTE : VI

I

DIRECTING

A key element in the management process is direction. Once plans have been drawn up to achieve pre-determined objectives and goals, the organisation structure is designed, and competent persons are appointed to responsible positions, the enterprise is ready to go into action. However, necessary activities will start only when a chief executive gives direction to all members of the management group. With effective direction, a chief executive hopes to secure :

(1) A full understanding by each individual manager, or aims, objectives, and plans of the organisation ; both general and specific, long-range and immediate ;

(2) A full understnding of the organisation and its elements, that is, of who does what, and particularly, of his own areas of authority and responsibility ;

(3) A full understanding of policies, procedures and rules under which the organisation will operate, and the reasons thereof ;

(4) A full understanding of major problems faced by the enterprise and specifically, what each manager can do to aid the solution of those problems ; and

(5) A full and up-to-date information on significant factors, that is, about business forecasts, contemplated changes in facilities, policies, procedures etc.

Middle Level managers who have been effectively directed will in turn have to direct their subordinate managers and supervisors, who must instruct rank and file of employees to carry out necessary activities. At the level of a first-line manager or a supervisor, directing largely involves giving orders and instructions to workers. As performance of a worker depends on nature of the orders and the manner in which they are given, every manager/supervisor should no main characteristics of good orders.

Characteristics of Good Orders :

(1) An order should be clear and understandable to the person who receives it. Very often, an executive giving an order does not even suspeet that it may not be clear to his subordinate ; he does not realise that the subordinate may not have a clear picture as to what is expected of him and why. He should, therefore, try to place himself in the position of his subordinate and then

consider what he needs to be told. Further, the language should be free of jargons and be simple and readily under-stood.

(2) An order should be complete. It should leave no doubt in the mind of the subordinate as to what is expected of him It must convey to him the quantity and the quality of performance expected, as well as the time within which it must be completed.

(3) An order should be reasonable. Before issuing, a superior should consider whether the subordinate receiving an order has necessary experience and ability to carry it out ; he must also see whether materials, equipment, company rules etc. will permit him to to comply with it with reasonable effort and ability.

Many managers and supervisors believe that they have an inherent eight to issue orders, and when these are clear, complete and reasonable, subordinates must carry them out ; it is, however, a matter of common experience that often even such orders are not fully carried out. It was Mary Follett who explained why this happend ; according to her, "what happens to a man, in a man, when an order is given to him, is that he feels his self-respect attacked, his most inner sanctuary invaded. He loses his temper, or becomes sullen, or is on the defensive ; he begins to think of his rights". This arouses him to a wrong behaviour pattern which is not going to benefit the organisation.

In order to avoid this and to ensure that subordinates carry out orders satisfactorily, Mary Follett offered the following guide lines :

(1) A manager should depersonalise the giving of orders, unite all concerned in a study of the situation, discover the "Law of the Situation," and obey it. It means that one person is not giving orders to another person, but both of them agree to take orders from the situation. This does not hurt the self-respect of subordinates.

(2) A manager should ensure that a subordinate has really understood the order by asking him to repeat it or explain it.

(3) A manager should explain the order so that the subordinate knows why the order is being given and what the manager wants to achieve. This gives him a sense of being 'in the know", and it also makes it possible for him to use his judgement later when the manager may not be available for clarification or further orders.

(4) A manager should ask the subordinate as to whether he has different ideas about how to carry out the order This will ensure his co-operation even if he has no idea of his own.

(5) A manager should not wait till completion of the order but check earlier. This would make it possible to correct mistakes, if any,

before it is too late ; or if it is found that the subordinate would not be able to complete the work in time, or in the required quantity, or the required, quality, suitable steps could be taken, in time, in this regard.

MOTIVATION

It is almost universal that, even with the best direction and effective order-giving, employees at all levels from a manager to the rank and file of workers, normally give just the minimum out put which they think is necessary to retain their jobs. It is, however, well-known that human beings have great potential but they use only a part of it when working for others. It is the function of a manager to induce employees to work willingly, efficiently, effectively and enthusiasitically, and contribute their best to the achievement of the goals of the organisation ; this, in short, is motivation.

Motives and Motivation : Berelson and Steiner have defined the term motives an 'an inner state that energizes, activates or moves (and hence motivation), and that directs or channels behaviour towards goals". In other words, motivation is a general term applying to the entire class of drives, desires, needs, wishes and similar forces. Motivation, therefore, may be looked upon as involving a chain reaction starting out with felt needs, resulting in wants or goals sought, which gives rise to tensions (that is unfulfilled desires), then causes action towards achieving goals, and finally satisfying wants. When we say that a manager motivates his subordinates, it means that he does those things which, he hopes, will satisfy these drives and desires and induce subordinates to act in the desired manner.

The Carrot and the Stick Technique of Motivation : Employers had believed for a long time that a person seeks employment because he expects to earn wages, with the help of which he hopes to buy goods and services to satisfy the needs of himself and his family ; further, he knows that if he does not carry on his work to the satisfaction of his superiors, he will lose his job and left to starve. This came to be known as "The Carrot and the Stick", or "The Reward and Punishment" technique for motivating employees.

F. W. Taylor was the first to appreciate the importance of reward in motivating workers and recommended differential piece-wages which rewarded those who produced more than the standard out-put and punished those who produced less than the standard. The system became very popular with the employers in U. S. A. and in England for some time, as it benefited not only employees but also employers. Gradually, however, the system began to reveal its limitation, with the result that many managements gave it up.

As regards motive of fear because of threat of punishment-e g. fines, suspension, dismissal-if workers did not carry out their duties satisfactorily, it was a powerful motivating force throughout the nineteenth century, during which period, there was large-scale unemployment, and workers were not well

organised, Since 1950's however, workers became well organised into powerful trade unions ; governments in many democratic countries passed laws to protect interests of the working class ; and the state enforcement machinery has been sympathetic to workers. Under these conditions, threat of punishment lost much of its force, and in short, the old techniques of "The Carrot and the Stick" ceased to be a motivating force.

Theories of Motivation : *Theory of Need Hierarchy* : During the last thirty years or so, many psychologists and social scientists hsve put forward their theories of motivation The first was theory of Need Hierarchy by Prof. A H. Maslow who published it in his now famous book, "Motivation and Personality" in 1954. According to him a man has multiplicity of needs which can be arranged in a hierarchy. At the base of this hierarchy are basic or physiological needs, that is need for food, shelter, clothing' sex etc. They have the highest prepotency and a person who lacks basic necessities of life will probably be motivated primarily by physiological needs.

When physiological needs are reasonably satisfied, safety needs begin to manifest themselves. One aspect of the safety need is economic security or security of jobs which assures continuity of income with which to satisfy physiological needs. Another aspect of safety is security of income against such contingencies as sickness, injury, loss of employment during working life, and security in old age after retirement.

When physiological and safety needs are reasonably satisfied, social needs become important motivators. Man is essentially a social being and wants to receive and give acceptance, friendship and affections ; he feels the need for belonging, for being an accepted member of a group.

After social needs, come psychological needs which are of two kinds ; (i) needs that relate to one's reputation that is for recognition, for appreciation, for deserved respect of one's fellow-workers, and of superiors ; and (ii) those that relate to one's self-esteem, that is, for self-confidence, for competence, for knowledge, for achievement.

Finally, at the top of the hierarchy, stands needs for self-fulfilment or self-realisation, that is, for opportunity to be what one can be, to develop one's full potential.

One characteristic of need hierarchy is that so long as needs at a lower level in the hierarchy are not satisfied, a person will neglect or even deny those at the higher levels ; secondly, the first three motives-physiological, safety, and social-can be reasonably satisfied ; and once these are so satisfied, these cease to motivate an individual.

Maslow's theory has the merit of proving logically, that unlike the animal, man has a multiplicity of lower level and higher level needs. This

means that in the case of managerial personnel, whose biological and safety needs may be said to be reasonably satisfied, they can be motivated only by appealing to their social and psychological. In the case of non-managerial personnel, that is, rank and file of workers, a large majority, especially in developing countries like ours, at present, are at the level of basic or primary needs. However, most of these countries have plans for rapid economic development to raise standards of living of their people, and when this is achieved, they too will find it necessary to turn to higher, psychological needs for motivation.

It must, however, be pointed out that Maslow's theory has been crticized on many grounds. First, its hierarchy cannot be regardee as rigid ; the levels are not clear cut, and tend to overlap. Secondly, some individuals may remain at the primary levels of the hierarchy, concerned only with physiological and safety needs. Thirdly, the specific order of needs suggested by Maslow may not apply to every one ; there is no empirical evidence to support that it does. This points to the fact that the theory may not have universal validity.

Herzberg's Two-Factor Theory of Motivation : In the late 1950's Herzberg and his associates, conducted extensive interviews with about two hundred engineers and accountants from eleven American industries in Pittsburgh area These persons were asked to relate elements of their job that made them happy or unhappy. An analysis of their answers revealed that when people reported a feeling of dissatisfaction or unhappiness, it was related to the environment in which they were working ; this included such things as salary, job security, physical conditions of work, relations with superiors and felloworkers, company policies, rules, procedures etc. Conversely, when they reported a feeling of happiness, they frequently described factors related to their jobs, to events that indicated that they were successful in the performance ,of their jobs, and to possibility of professional growth. Herzberg labeled the factors that prevent dissatisfaction as Hygiene factors and those that bring about satisfaction as Motivators.

Hygiene Factors are Satisfiers : Herzberg calls factors about the environment, as hygiene factors, because they act in a manner similar to the principle of medical hygiene. Hygiene operates to remove health hazards from environment ; it is preventive, not curative. For example, garbage disposal, water purification, mass vaccination, innoculation, etc , do not cure diseases but they help in preventing spread of many diseases. Similarly, unfavourable factors about the environment, bring about poor job attitude ; if they deteriorate below the level employees consider acceptable, job dissatisfaction will develop, Improvement in them will serve to remove obstacles to positive job attitude. However, the reverse may not hold good ; when these

factors are at the optimum level, there will be no job dissatisfaction but neither will there develop a positive job attitude.

Herzberg calls these factors as satisfiers ; and satisfiers affect the individual more by their absence than by their presence.

On the other hand, factors relating to the job itself, are subjective, personalized experiences like feeling of achievement, of significance, of growth and are called Motivators Every success reveals a greater challenge just beyond, and the individual is drawn towards it in the hope of more exhileration and thrill of winning again. In short, psychological needs achievement and self realisation cannot be fully satisfied and so they will continue to motivate individuals for a long time.

Herzberg's two-factor theory also has been criticized on several grounds. First, Herzberg's study consisting of engineers and accountants is not representative of the work-force in general Secondly, other researchers had drawn different results from similar studies, for they found that, in some cases, hygiene factors were viewed as motivators by blue collar workers. In conclusion it may be stated that though Herzberg's theory may not be universally applicable, it does help in extending the application of Maslow's theory to work-- motivations.

Vroom's Valance-Expectancy Theory : Victor Vroom criticized Herzberg's two factor theory on the ground that it is too dependent on the csntent and context of work roles of people being questioned He offered an expectancy approach to the understanding of motivation. He suggested that a person's motivation towards an action, at any time, would be determined by his anticipated values of all the outcomes (both negative and positive) of the action, multiplied by the strength of that person's expectancy that the out come would yield desired goal. In other words, motivation was a product of the anticipated worth to a person of his action, and the perceived probablity that the person's goal wouldbe achieved ; putting it in an equation, it would be Force=Valance X Expectancy, where Force is the strength of person's motivation. valance is the strength of a person's preference for an outcome, and expectancy is the probability that a particular action will lead to a desired outcome.

One of the merits of Vroom's theory is that it recognizes importance of various individual needs and motivation. and yields a contingency model, It thus avoids some of the simplistic features of the approaches of Maslow and Herzberg It fits in with the concept of harmony of objectives, that individuals have personal goals different from organisational goals, but these can be harmonized ; it also consistent with the theory of Management by Objectives.

Theory of Job Satisfaction : Many American Social Scientists who had studying impact of Modern technology on men at work in factories,

had suspected that in spite of fair wages, fringe benefits, reasonable job security, pleasant conditions of work (that is, satisfaction of physiological, safety and social needs), millions of workers in American industry did not have a sense of job satisfaction. A reason for this, according to the social scientists, was the features of modern technology, namely, complex division of labour, assembly line, and job simplification. These have reduced contents of most of the factory jobs to their simplest components, and such jobs do not demand any skill, responsibility or initiative from operators. As a result, these jobs have become repetitive, monotonous, uninteresting and unchallenging. This has made his work meaningless to the worker, except as a source of income which helps to satisfy only his primary needs. In the words of an assembly—line worker in an automobile factory in the U.S., "I am happy with my wages and fringe benefits ; I would not think of leaving my job. However, in order to enjoy my income, I have to be away from the job. The job on which I spend a major part of my working life is repetitive, monotonous and has, therefore, ceased to have any meaning for me".

A study conducted by the American Government in 1972 confirmed all the suspicious of social scientists about effects of modern technology. This study reported that a high percentage of work-force disliked their jobs and it found that workers dislike, being at the mercy of system that they could neither communicate with nor influence.

According to Richard Walton, roots of worker alienation may be found in the conflict that exists between employees' expectations and organisation conditions. Some of these are :

(1) Employees want opportunity for challenge and personal growth but the organisation gives them simplified work assignments.
(2) Employees want to be treated as equals and have something to say about what goes on, but the organisation has a hierarchical approach with status differences and chains of command.

I B M. Experiment in Job Enlargement : In order to overcome some of these problems, to create job satisfaction, and thereby increase employee motivation I B.M. Corporation made an experiment in Job Enlargement in its Endicott Plant some years ago, where work was organized on the principle of specialisation. As a result, an operator was psrforming simple repetitive operations, but he was helped by a term of experts, a tool sharpener,a machine set-up man, and an inspector. It was decided to enlarge the job and allowed and operator to sharpen his tool, to set-up and re-set his machine when necessary and to inspect the part he himself manufactured ; to enable the operator to perform these tasks efficiently, he was given systematic training. The experiment was conducted for one year and the result showed that there was no fall

in quantity of output ; and there was an improvement in quality. What was, however, also important, was that operators experienced job satisfaction. and refused to go back to the old method of operation. In the words of one of the operators, "there is now some variety in work ; occasionally, there are challenges ; and when one is able to meet a challenge, one feels a sense of success, of achievement". In short, the enlarged job had become interesting.

Theory of Job Enrichment : Critics of Job Enlargement argued that, performing a variety of routine, boring jobs instead of one, (which is the essence of job enlargement) cannot make that job really interesting. As an alternative, they recommended *Job Enrichment*. It may be defined as "an attempt by management to design tasks in such a way as to build in the opportunity for personal achievement, recognition, challenge, and individual growth". It provides a worker with more responsibility and autonomy in carrying out a complete task, and with timely feed-back on his performance.

American Telegraph & Telephone Company implemented a programme of job enrichment in 1972. Robert N. Ford of A. T. & T. reporting on it, stated that in the process of job enrichment there are three stages involving systematic changes in :

(1) Work Module : Work Modules (or elements of work) are defined to ensure each employee has a natural are of responsibility.

(2) Control of the work module : As a person gains experience, the supervisor turns more responsibility over to him.

(3) Feed-back : Performance evaluation is sent direct to employees who can then make necessary corrections, rather than following customary procedure of sending evaluation to their supervisor.

Of the nineteen studies conducted using job enrichment at A T. & T., nine were extremly successful, nine were moderately so and only one was a flop. Another well-known advocate of job enrichment, M Scott Myres, claims that this approach is successful because it destroys the labour-management distinction ; it creates a self managed job where the person performing it is responsible for the total plan-to-control phase of the task.

In spite of its soundness, critics have pointed out its following limitations :

(1) Some workers may prefer boring or unpleasant jobs (for example, less educated men or young unmarried girls), with good social interaction, to enriched jobs that may reduce opportunity for such interaction.

(2) Some workers may react to this technique with a felling of inadequacy and a fear of failure.

(3) Job Enrichment may not have much value to those workers who do not find satisfaction in the work place.

II
NEEDS OF ORGANISATION

An organisation is set up in order to achieve objectives and goals which its members cannot achieve individually. For this, it brings together resources-material and human and places them in the hands of its management An organisation, therefore, needs capable managers to handle efficiently both material and human resources ; managers must have technical knowledge and skill for utilizing material resources, and understanding and skill in managing human resources The need for capable managers cannot be over emphasized. As Peter Drucker pointed out, a secret of the continuous and high rate of productivity of American industry was not abundance of material resources, but high calibre of its managerial personnel ; and low rate of productivity of developing countries, like India, has been largely due to scarcity and lower efficiency of its managerial personnel.

The next need of the organisation is attainable objectives (probably difficult but not impossible), suitable plans, clear policies and procedures, and a sound organisation structure. An organisation structure is a physical arrangement of activities and people and inter-relationship among them. It is concerned with ways and means in which the functions of the organisation are divided, differentiated and intergrated to produce results in the dynamic external environment in which an organisation operates.

Individual Needs : Individuals join a business organisasion to satisfy their needs, which in turn, lead to their behaviour. So a manager, who has to get things done with and through people, must understand those needs, and have the skill to influence their behaviour towards the desired direction. As has been discussed earlier, needs of man can be classified into physiological, safety or security, social and psychological needs. Though there are individual differences, there are certain basic patterns, a widely accepted pattern being that of Prof. Maslow, discussed earlier.

Man in Groups : It has been, by now, generally recognised that employees in business organisation spontaneously form informal groups cutting across formal groups. A group may be defined as two or more people, interacting and interdependent, who have the ability to act in a unitary manner. The process of inter-action is continuous, dynamic and directed towards some shared purpose or objective. According to Rensis Likert, "an organisation will function best when its personnel function, not as individuals, but as members of a highly effective work-group with high performance goals".

A knowledge of nature and functioning of informal groups is, therefore, useful to a manager for the best utilization of his personnel.

Among the basic characteristics of informal groups are such characteristics as goals, cohesiveness, norms, agreement and group maintenance A manager should provide opportunity for group harmony through personal contacts, gossiping, airing personal grievances etc. A second property of a group is cohesiveness, i. e. degree of attraction the group has for each of its members ; the geater is group cohesiveness, the greater is its power, both internally upon its members and externally on other groups. In the discussion about informal groups, in Study Note No. 3, impacts,—favourable and unfavourable of informal groups on management have been indicated. Kurt Lewin has suggested a number of leadership approaches (which will be discussed later in this Study Note) in order to secure the most effective results from group action.

Importance of Behaviour : Human behaviour is extremely complex ; very little has so far been known about why human being behave in a particular way or how to influence their behaviour. During the last thirty years or so, however, many psychologists and sociologists have tried to study human behaviour, and have been able to offer some broad guidelines for its understanding. Kurt Lewin, a leading social scientist, suggested the following formula for it ; B=f(P.E.) ; that is behaviour is a function of personality and environment (Ref. : Study Note No. 1).

As regards personality, there are two aspects, namely, physiological, and psychological. Man's genetically structured physical, biological, and anatomical processes make him behave like an animal. Psychological processes include perceptual process, learning process, as also personality of a man. Right from his birth, a man tries to develop perceptions about his environment and about himself He interpretes about his environment on the operation of his physiological mechanism, his personality, his learning and his motivation. All these help to form his perceptual world. His perception has a definite influence on his behaviour ; he behaves on the basis of what he perceives rather than what he is.

Another major psychological process is learning, which implies a conscious attempt towards imbibing knowledge. It brings about a relatively durable change in behaviour which results from experience. One of the principles of learning is reinforcement which is anything that increases strength of response and induces repetition of behaviour Reinforcement may be positive or negative, extrinsic or intrinsic, primary or secondary.

The second factor influencing human behaviour is environment which has two aspects, viz., external environment and internal or organisational environment. External environment is both physical and socio-cultural ; this external environment may motivate a person, or make him disinterested in his work.

Internal or organisational environment has a much greater impact on organisational behaviour of an individual than external environment. Organisational environment has three important dimensions, viz., structure, process and values. Structure refers to the net-work of roles and relations among the various components of the organisation. Process refers to the activities performed and sequence and phasing of these activities : it is the dynamic aspect of the organisation. Values refer to its goals, the direction in which the organisation is to go and the way in which it is to behave.

The foregoing interact with the individual and the group and influence the organisational behaviour of the members Industrial behaviour is greatly influenced by two elements, viz., communication process and motivation process ; the former will be explained a little later, while the latter has been discussed earlier in this Study Note. Informal groups spontaneously develop in an organisation and they exert considerable influence on individual behaviour ; the Hawthorne Experiments clearly demonstrated that such groups exercise a greater influence on individual behaviour than monetary rewards and physical conditions of work.

Factors Affecting Performance : A manager's job is to make the best use of resources availiable to achieve the enterprise objectives. As regards utilizatin of resources such as manhines, materials and money the modern manager has developed a great deal of skill. Guided by such specialists as economists, industrial engineers, financiers, cost accountants, technologists etc., he has learnt a great deal and has been able to estimate accurately input cost-output relationships. But when it comes to management of human resources, he finds that the problem of understanding human nature and behaviour, including motivation, is indeed formidable and has not been completely solved. And yet, he cannot await discovery of complete knowledge about human nature and behaviour ; he must try to induce, meantime, individual efforts towards accomplishment of enterprise objectives. Fortunately, many social scientists, who have observed and studied employees at work in different organisations, have formulated their theories of employee motivation. The more important of these have been discussed earlier. A study of these theories suggests that the following are the more important factors which affect performance of employees ; (1) Monetary Rewards, (2) Work Environment, (3) Nature of Work, (4) Worker Participation. The nature of these factors and their impact on performance are briefly described below.

Monetary Rewards : It is universally recognized that when a person looks for a job, the most important factor he considers is the monetary reward it offers, in terms of wages, allowances etc. Other things being equal, he is likely to prefer that organisation which offers him a higher monetary reward ;

this is natural because, for a large majority of industrial workers, the job is the only source of income. This income, which represents generalized purchasing power, makes it possible for him to buy goods and services with which to satisfy his basic or physiological needs ; in addition, he would like to have sufficient income to provide for such contingencies during working life as sickness, accidents, lay-off, retrenchment, and for old age after retirement. When such economic security is provided by the employer and the State, his anxiety is removed and he is able to concentrate on his work and produce higher output. This is why, it had been belived for a long time. that monetary reward is the most important factor in motivating workers.

It has also been argued that money not only satisfies physiological and security needs but it also confers a certain status to its owner in society. This is why some individuals may continue to desire for more and more money and so put in greater efforts in response to higher monetary rewards

While recognizing the role of monetary reward, it must be noted that it operates more as a hygiene or maintenance factor rather than as a motivator. As Saul Gellarman pointed out, "in most business and other enterprises, money is actually used as a means of keeping on organisation adequately manned and not primarily as a motivator". This may be seen in the practice of making wages and salaries competitive between various enterprises so as to attract and hold people. Money may act as a motiuor only when additional rewards or bonus are paid to managers and employees on the basis of their performance ; for various reasons however, this has not been generally adopted.

In conclusion, keeping in mind the great importance which employees attach to monetary rewards, a management should assure employees fair wages, which are comparable to what other workers performing the same jobs in competitive units or in the units in the same locality, are getting. This will help to prevent discontent among employees and secure from them average output.

Work Environment : Physiologists have been able to prove conclusively from experiments that adverse physical conditions of work such as excessive or low temperatures, lack of adequate ventilation, inadequate lighting, or noisy conditions have adverse effects on productivity of workers, and also on their attitude to management Managements, therefore, should try to provide reasonably good physical conditions of work.

Apart from physical work environment, there is the question of managerial climate on the shop floor, important elements of this environment being, the informal group, their values and the attitude of the supervisor. Prof, Elton Mayo, who conducted the famous Hawthorne Experiments, came to the

conclusion that these elements have a great influence on productivity of workers and their attitude towards management A manager should, therefore, learn to live with informal groups, which are spontaneously formed, to be able to detect leaders of such informal groups, and to develop skills to induce these leaders and their groups to cooperate with, rather than work against, the management.

Nature of Work : As has been already stated, modern technology has made most of the factory jobs repetitive, monotonous, uninteresting and unchallenging. It is, therefore, difficult to expect workers to take interest in their work, for this is looked upon only as a source of income, and so whenever possible, workers remain absent or report to work late ; this adversely affects quantity and quality of the output. To prevent this and to make work interesting, social scientists have developed techniques of Job Enlargement and Job Enrichment. They have shown that jobs may be enriched in a number of ways, the more important of these being by : (1) giving workers more latitude in deciding work methods, work sequence, and pace of work : (2) making them personally responsible for their tasks, (3) showing them how their tasks contribute to the finished product, and (4) giving them feed-back on their performance before giving it to their superiors, to enable them to continually improve their performance.

An enriched job is said to be one of the most motivating factors. Introduction of a job enrichment programme at A. T. & T. reduced labour turnover by 27 per cent, and secured a cost saving of 558 000. Motorola had workers put together and test an entire unit by themselves : Volvo and Saab two Swedish automobile companies, had parts brought to the car and installed by semi-autonomous workers ; Cadilac abandoned some of its small assembly lines in favour of each worker building one complete part ; Bharat Heavy Electricals Ltd. (BHEL), Ranchi, India, introduced a programme in 1978 to help workers in one of its large departments, to be multi-skilled operators. All these Job Enrichment Programmes reported satisfactory and encouraging results.

It may be true that, for various reasons, it may not be possible for every management to introduce job enrichment in their present work organisation. But it must be emphasized that they should make a sincere attempt to introduce job enrichment wherever practicable for this will develop a positive attitude among employees and motivate them for higher performance.

Worker Participation in Management : Social scientists and researchers like Dr. McGregor and others have complained that traditional management practices are not conducive to employee motivation. According to Dr. McGregor (Theory X), traditional managers assumed that people in general try to avoid work if possible ; do not accept responsibility ; do not have any

creative abilities, and are content with maximum possible, monetary rewards. They, therefore, thought it necessary to direct, supervise and control them in order to secure their contribution to the enterprise objectives As a result labour management relations have often been characterized by non-co operation, frequently leading to go slow, work-to rule, strikes, lock-out, and occasional destruction of property.

In Dr. McGregor's view, the assumptions of traditional managers about employee nature and behaviour are not correct. According to him (Theory Y), employees, in general, like to work if conditions are favourable ; they not only accept but also seek responsibility ; they are capable of self-control ; many of them posses high degree of imagination, ingenuity and creativity in the solution of organisational problems, but traditional managers have not tried to utilize their potential abilities.

In order to release these abilities and to motivate employees, Dr Mc Gregor suggested the technique and philosophy of Worker Participation in Management. This consists in a genuine faith in human nature and behaviour as perceived by Theory Y, that is, employees do have better knowledge and ideas about how jobs might be done better, easier and cheaper ; and older workers are willing to impart these ideas to new workers & get a kick out of it. All this provides them with non-material incentives which satisfy such needs as recognition of one's abilities and a sense of accomplishment, which no monetary incentives can satisfy.

The fore going was first offered as a practical plan by Joseph Scanlan in 1940's for steel and engineering factories and is now known as Scanlon Plan for worker participation in management. Under this plan, the management sets up a Production Committee in each department and a Screening Committee for the whole unit, on which there is an equal number of representatives of management and workers. All problems—Workers' or management's—are brought before these committees, are freely discussed and decisions are made, not by a majority vote, but by unanimous acceptance. In addition to wages and salaries, monetary incentives are given to all from the managing director to the sweeper—on the basis of saving made through reduction in costs. Workers are informed and consulted on all matters and specially on matters which affect them directly such as a change in layout or in methods of production, to make or to buy, to spend more on research etc.

The working of the Scanlon Plan in a large number of such diverse Industries as furniture, steel fabrication, printing radio, television etc. and in companies ranging in size from 600 to 6000 employees, indicates that it has ulfilled expectations of its advocates. Workers in these companies have

fund work interesting ; the informal group atmoshere provides social satisfaction which is usually denied elsewhere ; and the managerial climate highly motivating.

In sure, both social scientists and democratically minded managers tend to recognize motivating power of worker participation in management. This, however, does not mean that there are no diffi- ities in initiating or implementing such a plan. There may be reluctance, hesitation or even resistance on the part of the management of the unions, initially, to such plan ; but, with good will on both sides, it should not be difficult to make it a success.

Group Dynamics : In many business organisations, today, decisions are taken by small groups at top management level ; decesions as regards their implementation are also made by small groups, particularly informal groups of workers which, according to social scientists, develop spontaneously in every organisation. These groups mobilize powerful forces which have far reaching effects on the behaviour of individual members of a group- Managements may make use of such groups for solving problems, by adopting, say, the technique of Brain Storming (Ref. Study Note 1). However, informal groups can also create problems for managements e g. by restricting output or by resisting desirable changes.

Group Dynamics is concerned with the nature of dynamism in a group, that is, with the nature of the process by which a group can be made to adopt a new idea or a change desired by management Understanding the process of group dynamics can increase chances of securing support of a group in implementing a change.

Kurt Lewin demonstrated to Government authorities in Great Britain during the Second World War, how a new idea became effective only when a group accepted it : Food Department was anxious to change old food habits during the War, and to pursuade housewives to use new types of food made available by the department. It had tried the conventional method of making appeals through the B B. C, newspapers and handouts, without success. Lewin decided to try the technique of group dynamics to bring about an acceptance of the change : He invited housewives for his experiment and divided them into six groups. In three groups, lectures were delivered which high-lighted the problem of good food with war effort and emphasize nutritive and economic advantages of recommended food items. In the other three groups, discussions were held on the use of the new food itmes. A follow-up study showed that only 3 per cent of the housewives who heard the lectures served the new food items, whereas as many as 32 per cent of

housewives who had participated in group discussions, served these items. The implication of this experiment was that, if a change in work-habit has to be made, mere talking and explaning the need for such a change, do not necessarily bring about its acceptance. Group discussions are likely to be more effective in making a group accept the desired change.

GROUP DYNAMICS

In every organisation, there are several groups which are small enough for face to face interaction and communication. There are groups of many kinds, viz. Primary groups, secondary groups, formal groups and informal groups.

Among formal groups come the command groups and the task groups. A command group consists of managers and his immediate subordinates The roles and relationships among the members of this group are determined by the organisation. In a task group, members formally work together to carry out specific tasks as in the case of a committee.

Informal groups emerge spontaneously within an organisation There have been classified into (i) an organisation unit group (ii) a friendship group, and (iii) an interest or a pressure group. The first of these consists of individuals working together as a unit under one manager ; the friendship groups, on the other hand, cut across the formal groups, and their members belong to different formal groups within the organisation an interest group is formed to protect the interest of its members.

Informal groups serve to satisfy the social and psychological needs of thier members which cannot be satisfied in a formal group. Members of an informal group share common interest and values. Each one influences and is influenced by his group. An informal group evolves its own norms of behaviour and output. They are more often different from those set up by the formal group.

Group Dynamics : The term group dynamics refers to the complex of forces that determine the formation of an informal group, its size, cohesiveness, interaction and behaviour. This concept was developed by Kurt Lewin who carried out extensive studies of such groups in hundreds of organisations. Based on this research, he developed a frame work for analysis of small groups and their dynamics. It includes the following :

1 *Inputs to Group process* : Group composition and group structure.

2. *Group processes and Behaviour* : Group communication process, group decision-making process, process of group cohesiveness, and process of resolving group conflict.

3. *Output of group processes* : Group development. individual development and organisational development.

It is proposed to describe briefly these three dimension of group dynamics.

Inputs to Group Processes and Behaviour.

Nature of the Task and Environment : Both these elements are determined by the organisation and the group has no control over them. The whole task of the organisation is divided into a number of jobs and sub-tasks depending on the type of technology. The group has to accept these as given and carry out the tasks assigned to it. The environment of the group includes the formal organisation structure, management policies and practices, leadership styles etc

Group Composition : The members who form an informal group because of common likes. interests etc bring with them their beliefs, attitudes. aspirations and abilities. These factors naturally interact and modify the attitude and behaviour of the group In short, group behaviour is determined by group composition.

Group Structure : It relates to its size, the pattern of roles and relationship of members, group leadership pattern and the pattern of norms of group behaviour,

Group Processes and Behaviour : Group processes and behaviour constitute the vital links between group inputs and outputs.

Group Communication process : Communication is the means of interaction by which the group members are able to relate and adjust themselves to each other. Members exchange their fellings, hopes and fears on a continuous basis and this helps to bring about congruance of the group members on one hand and task performance on the other.

Group Decision Making or Problem Solving : Genuine group discussions for decision making is a democratic and participative process. It helps to arrive at better quality decisions and cooperative implementation of such decisions. As regards problem solving, many studies have shown that group

solutions to problems tend to be some what better than individual. This is possible because group members bring new information on the problem and generate more alternative solutions.

Group Cohesiveness Process : Group cohesiveness may be defined as the degree of attraction the members have for the group. It is an important indicator of how much influence the group as a whole has over individual members. The more cohesive the group, the greater the potential influence of the group. Highly cohesive groups have often less tension, misunderstanding and hostility than non-cohesive groups. For this reason they are potentially more productive than non-cohesive groups.

Extensive research has revealed the factors which influence cohesiveness of groups, the more important of these are :

1. A small size group has greater cohesiveness.
2. A group whose members have equal status is more cohesive.
3. A group in which members are highly interacting is more cohesive.
4. Stable external environmental conditions are condusive to continuity of occhesiveness.
5. Repeated success in the achievement of individual and group goals leads to greater group cohesiveness.

Group cohesiveness has great influence on the behaviour of member. It provides members a strong motivation for achieving higher productivity and sustaining it at the higher level.

Process of Resolving Group Conflicts : Conflicts are inevitable in all groups because of difference of values, goals and perceptions. However, when the members have the common purpose of achieving the goals and the standards set up by the organisation, conflict is constructive ; conflict situations provide opportunities for creative ideas and innovations. The result is greater productivity and higher satisfaction for group members.

Output of Group Processes and Behaviour : Healthy group processes help group development, individual development and organisational development. Healthy group development will lead to increase group productivity and greater satisfaction. It will also bring about a favourable change in the attitude of the individual members towards their work, towards managers,

towards the organisation, and towards its objectives and goals. Finally, healthy development of all groups in the organisation will increase the ability of the organisation to adapt itself to frequent environmental changes.

An understanding of and an insight into the nature of the group processes will go a long way in helping managers to ensure that the informal groups work with him and not against him, to achieve the objectives and the goals of the organisation.

III
COMMUNICATION

Intimately connected with the function of directing, is the element of communication, In fact, communication is essential for the whole management process ; and yet, its importance has come to be recognized only recently.

The American Society of Training Directors has defined communication as "the technique of thought of information to bring about mutual under standing and confidence of good human relations", Newman and Sumer have defined it as "an exchange of facts, ideas and opinions or emotions by two persons". In short, communication is ment by which behaviour is modified. change is effected, information is made productive, and goals are achieved.

Chester Barnard was perhaps, the first best known author who gave serious consideration to communication in large scale enterprises ; he viewed it as the means by which people were linked together in organisation in order to achieve a common purpose. Group activity is impossible without communication as, without it co-ordination and change cannot be effected.

During the last thirty years or so, social scientists have started emphasizing human aspect of communication. As a result, they have been able to throw light on important aspects of communication in business organisation. previously unknown to traditional managers. Traditional managers believed only in communication of orders and did not realize the need for, and importance of, communicating other useful information to employees ; they did note ralize that communication is a two-way process : that there must also be upward communication from employees to managers and that it is their responsibility to encourage it. Further, they did not know that as in technical communication there are obstacles or barriers to human communication and they must identify them and endeavour to remove them.

Management Information System (MIS)

Management information system may be stated to be a systematised cyclic pattern of communication ; and it may be briefly defined as the systems method of bonding managed functions (components or sub systems), through the medium of information. In other words, MIS is an information system designed to fulfil common needs of the operations system of an enterprise.

There are three teams viz, Management, Information and System, Management is the core

Information is processed data and is a unit of knowledge which is meaningful to a manager ; information has three built-in elements :

i) a "surprise" element—carrying new knowledge ;
ii) an 'uncertainty' element—calling for action in further probe or alter native choice ;

viii) a "deviant" element— needing action to restore wheels on the back

A system has to perform and is a means to an end ; there are four essential elements in a system :

(i) a number of variables which, themselves in a state of flux, shape the system dynamics ;

(ii) a subsisting inter relationship between the variables ;

(iii) a purpose that the system is designed to accomplish ;

(iv) a direction that the system should follow in its progress to the designed purpose

In order to yield its output, a system must be fed with inputs : these are the variables that enter the system, from within itself and/or from outer environments.

For efficient discharge of management functions, managements at every level, need vital information—with speed, brevity, relevance, precision and economy. MIS has the formidable task of processing massive, incoherent communication (data and knowledge) generated in an enterprise, systematise it and feed it to every level of management as an aid in its tasks and functions.

Cybernetics :

Cybernetics refers to the science communication and control ; an important, modern cybernetic device is the computer. cybernetics are based on feed-back, control and regulation. In essence, it is the systematic effort to reach a stage of stable condition, by adjustments made through feeding back into the controlling system of relevant information, obtained from its interaction within itself and/or with outer environments.

Investigations have identified separate types of communication problems :

(i) "Technical" problem of how accurately symbols may be transmitted .

(ii) 'Semantics" problem of how precisely the transmitted symbols can convey a desired meaning ;

(iii) "Effectiveness" problem of how well the transmitted meaning affects conduct of an enterprise.

Timelag in management control processes demonstrates the need of future-directed control, if control is to be effective What managers need for effective control, is a system that will tell them, in time to take corrective action, that problems will arise if something is not done about them, now.

Present-day managers are getting progressively conscious about the foregoing.

Cammunication Process in Management : Inter personal communication was perceived as one-way communication in which information passed from one person to another without feed back. To a traditional manager,

communication consisted of his sending orders to his subordinates without any attempt to know latter's response. Experience has, however, taught him that without the response, communicator process is not complete, and the purpose of such communication viz. : of achieving mutual understanding and confidence between the manager and the employee will not be accompli shed without communication from the employee.

Oral Communication : Oral communication is very frequently used by supervisors on the shop floor and by middle level managers. Top level executives, however, use it occasionally. The more commonly used forms are face to face varbal orders, telephones, public address system, speeches at conferences and meetings.

Many executives regard oral communication as superior to a written one since it not only saves time, but also provides a basis for better understanding. This is very true with face to face communication, which gives each party an opportunity to respond directly to the other. Disagreement, dissension, fear, tension and anger can often be eliminated by solving the problem on the spot ; this give and take provides each participant a basis for clarifying his position and getting a first hand view of that held by the other. In addition, it provides the sender an opportunity to note body language, such as gestures, tone of voice, facial expression, thereby obtaining a more complete feed back than is available in any other form of oral communication ; this is why it has been said that how a person says is an important as what he says.

In spite of its advantages, face to face communication cannot be used on all occasions. When an executive has to pass on orders or information to a large number of persons or to persons stiuated at different places, face to face communication is not possible. Again, if the orders are to remain in force for a long time, it is not suitable. Further, as there is nothing on record, both parties may deny having said something.

Written Communication : Orders and information can also be communicated to employees through memos, circulars, notices on boards, posters, organisation manuals, house journals etc. One advantage of such written communication is that it serves as a permanent and a reliable record ; as the Chinese proverb says, "the palest ink is clearer than the best memory". Another advantage is that a written communication has to be precise and more carefully prepared than oral one, as there is no opportunity for explanation. Thirdly, if a message has to go through many persons, writing provides protection against transmission losses and distortions. In fact, written communication is always preferred when a directive contains detailed instructions that are too lengthy to be trusted to oral communication It is invariably used

for proposals, agreements, legal documents, policy statements, organisation and procedure manuals, advertising and public relations announcements, and for many other important matters.

There are, however, certain drawbacks of written communication. Although there is the opportunity to be precise and accurate in composing a message, one often comes across messages which are confused, ambiguous, or not clear ; this then requires written or oral clarifications which, apart from being time consuming, may make the ultimate message expensive and confused ; secondly, it tends to be rigid and may have a tendency to turn into red tape.

IV
DOWNWARD COMMUNICATION WITH EMPLOYEES

Orders and instructions-oral and written are only a part, though an important one, of an organisation's total system of communication. A more important part is the information about the company's past achievements and future problems, its products, its manufacturing processes, information about company's policies regarding recruitment, promotion, welfare facilities ; also information about fellow workers, their sports and extra curricular activities, their achievements and such other social matters.

Social Science researchers have shown that regular provision of such information helps to create, among the employees, a sense of belonging and hence a feeling of loyalty to the organisation, an active interest in their work, and in the work of others. All this tends to induce them to co-operate enthusiastically with the management in achieving the company's objective and goals.

Media for Downward Communication : Large organisations having been convinced of the need for and advantages of systematic donward communication, are using different media such as : (1) Employee Handbook, (2) Organisation Manual, (3) House, Journal and (4) Annual Report to Employees.

Employee Handbook : Some companies have been following the practice of issuing this handbook to every new managerial employee when he joins the organisation. It contains history of the company, its past achievements, its important personalities, its present posit on its products facilities to employees etc.

Organisation Manual : It describes the organisation structure, all managerial positions, lines of promotion, extent of their authority and responsibility, nature of the relationship of each with all other positions.

House Journal : It is generally a periodical publication which communicates personal information about members, that is information about promotions, transfers, retirements, marriages, births, achievements of company teams in sports, in drama, Bhajan Competitions, and occasionally about views of employees about the company and the management.

Annual Reports : A few American and British Companies have recently started the practice of issuing Annual Reports to their employees along with the Shareholders. This gives employees authentic reports about working results and financial position of the company particularly about the profit. This helps to prevent circulation of false rumours about position of profits, management's policy regarding bonus, etc.

Evaluation of Effectiveness of Downward Communication :

One test of its effectiveness is degree of improvement in general performance of employees on their jobs at all levels. In more concrete terms, it means how far improvements in the operative objectives—improvements in machine, material and labour productivity of the company have been achieved.

As it is not practicable to separate exact contribution of a communication system to the operative objectives, it is necessary to look for other effects which can be specifically measured.

Personnel Measurements : One such direct measure is statistics of absenteeism, late-coming, and even incidence of accidents and injuries, particularly when then these have been objects of extensive communicatication campaigns.

Opinion and Attitude Survey : A popular method used in the United States for assessing results of a communication campaign, is Opinion and Attitude Survey. In this method, at first a survey is taken to find out how employees feel about a particular subject, as for example, walfare facilities, promotion policy etc. An intensive communication campaign is then launched to improve their knowledge, opinion and attitude about the subject ; another survey is then conducted to find out the degree of change with has been brought about as a result of the campaign.

Informal Channels of Communication : In addition to the formal channels of communication indicated so far, there are also informal channels. As has been pointed out (in Study Note 3), informal groups develop spontaneously in formal organisation. Naturally, members of one informal group pass on information to other members, as well as to other informal groups. The net-work so formed is called a *Grapevine.*

A grapevine, not being a formal channel, is structureless and for that reason information passes through it in all directions and with unusual speed. It comes to life, starts buzzing, when a member of an informal group comes in possession of some information in some way connected with the organisation ; he passes it on to the leader of his group, who in turn, passes it to leaders of other informal groups or trusted persons and so on, till it reaches all members of the organisation in a short time.

A grapevine thrives on information not openly available to the entire group, either because it is regarded as confidential or because formal lines of communication are inadequate to disperse it, or because it is of a kind that would never be formally disclosed.

Even though a grapevine works much faster than official channels, it tends to be inaccurate. It passes on factual information mixed with private speculation, and as the message passes form person to person, it is progressively distorted.

Since a manager cannot eliminate grapevine, he should try to use it. He can learn through the grapevine, what his subordinates are thinking and also about what is going on elsewhere in the organisation. He can scotch rumours, that is, counteract them, by presenting correct facts. He can also use it to make certain facts known about which he might not like to make an official statement.

Upward Communication : In the past, many organisations had concentrated their efforts on the improvement in the contents and the mechanics of downward communication ; they were not even aware of need and importance of upward communication. It was the electrical device of thermostatic control which attracted their attention and dramatised the value of upward communication or of "feed-back". What happens, for example, when a thermostat is set up at 70°F to maintain temperature in a room at that level is that, if and when the actual temperature goes above or below the datum 70°F, of this information is promptly reported, and the control mechanism immediately sets in motion appropriate action to bring the temperature back to the datum.

Importance and need of Upward Communication in Management :
In an organisation, a manager has certain standard of performance, like the seventy degree setting on a thermostat. When the condition within his area of responsibility deviate markedly from these standards, an action cycle may be initiated through communication, and the information reaching the manager gives him an opportunity for corrective action. He cannot exercise control without such information, and he cannot do a complete job of managing without controlling.

There has been a progressive tendency towards delegation and decentralisation in large organisations because of their various advantages and particularly, as it provides a way out of red-tape. However, managerial delegation/decentralisation, to be effective, requires, above all, adequate feedback or upward communication.

Further, in any organisation, a chief executive must have some reliable machinery to secure continuous, reliable and adequate information from his managers as regards what is happening throughout the organisation. It is well known that orders and instructions may not be complied with automatically or uniformly. Failures may be traceable to basic decision, to instructions given, to some unforeseeable human weakness, or to changed circumstances ; this may necessitate a reappraisal of the decision and of programmes based on it. Only when an executive receives reliable information from below, can he weigh results, make new decisions, issue new instructions or take whatever other actions he sees fit.

Devices for Feed-back : One of the most commonly used debices is Periodic Reports from subordinates. These provide information which may

be used to measure performance, control costs, serve the needs of both long term planning and current scheduling of work, check conformance with organisational policies and procedures, transmit information of special interest or importance, or facilitate co-ordination of widely separated operations.

Types of Reports : Reports may be classified into three categories according to purpose, viz. (1) Performance and Control Reports, (2) Planning Reports, and (3) Information Reports. The may also be grouped as (1) Regular, and (2) Special, or as (1) Statistical, (2) Financial, and (3) Narrative Reports.

Limitations of Reports : As reports originate from a number of centres in the organisation, it is necessary to interpret them for use of the management. Unfortunately, however, as reports move upward, distortions may creep in at each level. There is no assurance that all noteworthy items will be reported. For a particular reporter, an item or incidence may be without significance, or if he has not stenographic or clerical assistance, he may find it difficult to prepare reports, often an executive may not quite know how to prepare reports, how or why they are used, or whether they are used at all ; he will then have little incentive for preparing his reports.

Distortions in reports may be commonly due to two reasons : (1) Fear of authority, and (2) Desire to make a favourable impression.

Distortions due to Fear : One very common psychological obstacle to faithful reporting is fear of the boss, fear of displeasing the boss of not being promoted or of being fired. A subordinate may often have to choose between reporting what may be interpreted as his failure, and taking a chance on keeping the information under cover indefinitely ; he may succumb to the latter temptation and omit the offending information from his report

Distortions due to Desire to make a Favourable Impression : Another psychological obstacle is the almost universal human desire to make a favourable impression on the superior, and to report only those things that a superior wants to hear. A good showing, although small, is easily confused with a big showing, and the reporter is tempted to magnify minute details of his accomplishments ; or events that may be interpreted as failures, if reported at all, are skilfully understated and deftly sandwiched between successes.

A chief executive scanning reports of his managers must, therefore, keep in mind possibility of distortions. Further, to get a correct perspective of departmental performance, he must evolve, with the help of his staff specialists, appropriate criteria or ratios to test validity otherwise of the information presented in the reports.

Upward Communication from the Rank and File of Employees : An essential feature of communication from employees is that there should be

both channels and opportunities, as well as, motivation for them to initiate communication to their immediate superiors and to those at higher levels in the organisation. Social Scientists have shown that upward communication has important functions, such as the following ;

(1) It serves as a measure of effectiveness of downward communication.

(2) It provides management with the needed intangible information for decision-making. information which no reports can provide.

(3) It helps employees relieve presures and frustrations of work-situations.

(4) It gives employees a sense of participation in management.

It is a matter of common knowledge that subordinates know many things that a superior needs to know but does not know. It may be the knowledge of a current, developing or a potential problem in the superior's area of responsibility, or it may be factual information, or creative ideas that could help solve a problem ; it may be a feeling of personal satisfaction or dissatisfaction with some situation about which the superior is unaware, but which may be affecting the subordinates' motivation or his ability to work effectively. However, it is almost axiomatic that subordinates are generally reluctant to talk freely and frankly to their superiors.

Barriers to Communication : As a result of recent technological developments, many electrical and electronic devices are now available for communication with high speed, between persons separated by long distances, And yet, it must be submitted that this has not brought about complete understanding between them on many issues. This is true also about managements and employees in many organisations, If communication is to achieve its purpose, it is necessary for managements to know the barriers or obstacles which hamper communication, and to find out ways and means to remove these obstacles, Some of these barriers have been identified and these include the following :

Status Barriers : Each organisation has some kind of status system, wherby each individual acquires a status or value in the eyes of others. Apparently, some individuals have higher status and some lower satus. Generally, persons of higher status do dot take freely with those of lower status, and those with lower status do not feel free with their superiors, and pass on only what superiors would like to hear, keeping back unpleasant facts

Somantic or Language Barriers : Words and symbols are used to communicate facts and feelings. Normally, they serve this purpose very well. But often, the same word may mean different things to different persons depending on their perception due to differences in their family background,

education or work experience. For example, words like profits, union demands, workers, complaints, participation etc. may mean one thing to a manager and quite another to a worker.

Barrier of Indifferent Attention : A manager is often likely to give only perfunctory attentian to a communication from subordinate, when he is pre-occupied with other - more important matters. · He may not try to "tune into the same wave length as that of the speaker" ; what he receives then is a superficial message and not what is on the speaker's mind and what he has been trying to communicate.

Barrier due to Premature Evaluation : There is a general tendency when receiving a communication, to prematurely evaluate it. rather than to keep an open mind during the interchange. This stops complete transfer of information and leaves the sender with a sense of futility.

Barriers due to Non-fulfilment of Expectations: When an employee communicates to his superior or vice versa, the communicator has some expectations about some action on the part of the listener. However, if he finds, on a number of occasions, that no action has been taken nor has he been explained why no action could be taken, or when it would be taken, the speaker may stop communicating in future.

Individual Manager's Responsibility to overcome Barriers : The foregoing discussion about barriers to communication would suggest that the individual manager, whose responsibility it is to promote communications from subordinates, can himself taken certain steps to overcome these barriers. As regards status barrier, he should deemphasize the notion of his status, when communicating with subordinates. As regards language barrier, he should try to avoid the words which are likely to mean different things to subordinates, or take care to explain to them the meaning he has in mind. Thirdly, he should develop skill in empathetic listening, that is, the manner of listening which encourages the speaker to speak frankly, to unburden himself. Similarly, he should make a conscious effort to keep an kpen mind while listening and not to come to any conclusion until he has heard the whole story. Finally, after having listened to the employee and made his decision, he should take appropriate actiod and inform the employee about it within a reasonable time.

Special Aids for Overcoming Barriers : In addition to efforte by individual managers, top management should also initiate measures, both informal and formal, to promote free and frank upward communication by employees. Informal measures include (1) Open-door Policy, and (2) Participation in social functions ; formal measures include (1) Suggestion programmes, and (2) Personnel Counselling.

Informal Measures

Open-door Policy: Employees are informed that their immediate superiors will welcome discussion of their on-the job as well as off the job problems, and that their doors are open for such discussion. This policy appears to be attractive in theory but has not proved very effective in practice. Subordinates are generally reluctant to go to their superiors because of many psychological barriers; some employees feel that expressing true feelings about company matters to superiors is dangerous; others feel that any disagreement with the boss might block promotion; others are convinced that the management is just not interested in employee problems. Till these fears and doubts are removed and a climate of mutual understanding is established, an open-door policy is not likely to be much effective.

Participation in Social Functions: Informal recreational events or social functions, like a Drama, Sports Meet or Founder's Day celebration provide superb opportunities for unplanned communications from employees. This spontaneous informal information-sharing may reveal true conditions about employees' problems and difficulties better than a formal upward communications system.

Formal Techniques: Suggestion Programme: In the absence of a formal programme for upward communication, employees confine themselves to general criticism of management as a whole or of departmental heads, or of immediate superiors. This does not benefit management because it is behind its back and it does not reach it: neither does it benefit employees in any way. By instituting a suggestion programme, the management, on the other hand, throws a challenge to employees to put forward their constructive suggestions for improving efficiency of any activity within the enterprise.

A suggestion programme confers a number of benefits on the employees. First, there are cash rewards for approved suggestions which are of value to the company; the rewards add to the income of the workers who receive them and this provides primary incentive to constructive thinking. Secondly, there is personal satisfaction which employees derive from contributing ideas and seeing some of them adopted and put into use particularly so, when the suggestions in use are shown to visitors. Thirdly, an emploee gains a feeling that he is in integral part of the company: he is not doing a mere manual job every day, but is a part of the organisation, possessing a right to put forward his ideas and suggestions for improvement. Fourthly, it makes an employee feel that he is important and he is needed; it makes no difference whether he is skilled or unskilled: he has a right to make suggestions and if these are adopted, he gets that feeling of importance which

contributes to self-confidence and self-respect. There is also an educational aspect of a Suggestion Programme the employee begins to learn more fully about the company; he begins to find out why the company cannot do all the things that he thinks it should; and his general knowledge about the company and its problems expands. This helps to create an attitude of co-operation and responsibility in him.

Personnel Counselling: Prof. Elton Mayo and his associates who conducted the famous Hawthorne Experiments had interviewed, as a part of their experiments, more than twenty five thousand of the company employees, all of them once and some of them more than once. Information received in these interviews gave the company an idea to formulate, on a permanent basis, a Personnel Counselling Programme.

The essence of Personnel Counselling is that a superior makes a worker talk freely on matters about the organisation as well as about his personal matters, which affect him and his work. He listens empathetically, that is, with a genuine interest to understand and without contradicting whatever statements the worker might make. It is common experience that even a careful and prudent worker may have troubles at home: this is bound to disturb his mind and so his work is bound to be affected but half an hour's informal chat with some one about the problem may take the load off his mind. Equally important are the factors which concern him as an individual at work and which weigh on his mind. He may be feeling that he is not getting on in his job or not making progress or that his supervisor is not fair to him, or that he has been bypassed by a junior in promotion. Some of these grievances may be imaginary, but nevertheless they are real and important to the individual concerned. They are likely to be exaggerated and distorted simply because there has been no outlet for their expression or resolution. The moment they are expressed freely to a sympathetic listener, they are mollified and there is discharge of emotional and irrational elements from the mind. As a result, adverse attitudes improve and the person feels a cathartic or releasing effect from many long, pent-up feelings. In short, the worker obtains a certain 'lift' from such an interview, and feels happy about it.

Communication with the Public: In addition to communication with its employees, public limited companies, public utilities and many social and charitable organisations spend considerable money on communication with the public. This is because they realise that their survival and growth depend on good-will and support of the public. In fact, this subject has assumed such importance that many companies have separate Public Relations department, with responsibility to keep customers, dealers, suppliers, creditors

and general public informed, from time to time, as to what they are doing or propose to do to protect and promote interets of different sections of the public.

Public Relations

According to British Institute of Public Relations, Public Relations is "the deliberate, planned and sustained efforts to establish and maintain mutual understanding between an organisation and its public" ; another definition is "the attempt by information, persuasion and adjustment to engineer public support for an activity, cause, movement or institution".

It is philosophy and a function of top management and it involves continuing communication with the public, its basic elements being :

(a) Presentation of the organizational image on the public mind ;
(b) discovery of and elemination of, sources of misunderstanding ;
(c) broadening of its sphere of influence.

There has lately been a phenomenal growth in pukiic relations, which occupies a place of great importance in the operations of a business ; it is said that in U S.A., every three out of four large companies have fullfledged Public Relations Departments.

Principal "publics" of a business enterprise and their interests, are :

Shareholders	:	Dividend, Bonus shares ; fair return.
Debentures holders	:	Interest.
Employees	:	Fair Salaries and Wages, Bonus, Gratuity good working conditions, etc,
Consumers	:	Quality products at resonable prices.
Suppliers	:	Regular purchase, prompt payment.
Local authorities and Government.	:	Indirect and Direct taxes.
Community	:	Welfare activities, protection and improvement of environment, etc.

Good public Relations involves a happy blend amongst the foregoing, for it should be noted that true public relations has not so much in words, as in deeds, no amount of propaganda can win public goodwill for an enterprise, unless its actions are also in public interests

It has been stated that "Public Relations is 90% doing good and 10% talking about it". And, a business enterprise must be so managed as to make the "public" good a "private" good of the enterprise. Unless Public Relations is conducted properly, it is apt to be mistaken for propaganda.

Media and Methods : These include—

(1) Printed literature eg circulars, bulletins, journals. (2) Advertisements in Newspapers etc. (3) News releases, news items, (4) Handbills, Wallposters, (5) Exhibitions, (6) Films, dramas, cultural shows, (7) Invitation to citizens for visiting organisations. (8) Meetings, seminars, conferences on problems facing the public. (9) Participation in welfare projects of the community (10) Active part by senior executives in management of local public institutions.

V

LEADERSHIP

History is full of great leaders in all walks of life. They achieved great success because they were able to lift vision of their followers to higher sights, raise their performance to higher standards and build their personality beyond their normal limitations. As a consequence, it has become common to talk of managers as leaders. Apparently, there are some points of similarity between the two. Both require certain basic qualities such as intelligence, initiative, imagination, integrity etc., ; both require a high degree of skill in inter-personal relations ; both have to perform the functions of setting goals mobilising resources, and inspiring and influencing people for effective performance.

In spite of the above points of similarity the two roles are distinct ; some important points of difference are follows :

A manager derives his power from his organisational position, and acceptance by his subordinates is not a pre-condition. A leader however, derives his power from the fact of acceptance of his leadership by his followers.

A leader not only shapes but also reflects values, aspirations and views of his followers : a manager has only to shape values and views of his subordinates in order to accomplish his goals.

Leadership is a political process of give and take, of compromise, of diplomacy and perhaps even of duplicity. Management, on the other hand, is a technical, rational process, and a manager does not have to resort to give and take or comprise.

Leaders operate in an unstructured, open and flexible setting, and can be ad-hoc in their approach. As against this, managers have to operate in a formally structured organisational setting and have to function under several institutional restrictions.

Leaders are concerned more with satisfaction of their followers than to their efficiency and productivity ; on the other hand, managers normally, are concerned more with productivity and efficiency of their subordinates than their satisfaction.

Leadership in Business : Leadership is intimately connected with a manager's function of directing : ability to lead effectively is one of the keys to being an effective manager. A manager, by carrying out his functions of planning organizing staffing and controlling will, no doubt, get some results ; but these are likely to be far inferior to what could be achieved if he adds the extra ingredient of effective leadership. Leadership is also intimately connected with motivating which is an important aspect of a manager's job.

Leadership Defined: An operational definition of leadership is that "it is an art or process of influencing people so that they will strive, willingly and enthusiastically, with zeal and confidence, towards the achievement of the group goals". A leader guides and helps a group attain objectives with the maximum application of its capabilities. Like a conductor of an orchestra, who creates a co-ordinated musical symphony through the integrated efforts of a large number of instrumentalists, a manager accomplishes goals of the organisation through the co-ordinated efforts of the members of his group.

Nature of Leadership: History is full of examples of mediocre performance in absence of leadership and superb performance with it. It, therefore follows that when a group is performing at its peak capabilities, there must be, at its head some one who is skilled in the art of leadership. According to Koontz and O'Donnell, this skill is a judicious combination of at least three major ingredients :

(1) ability to comprehend that human beings have differing motivating forces at varying times and in different situations ;

(2) ability to inspire and

(3) ability to act in a way that will develop a climate for responding to and arousing motivations.

Theories of Leadership: There are number of theories of leadership, in the context of business, of which four are discussed here : they are (1) The Trait Theory, (2) The Skill Theory, (3) The Behavioural Theory, and (4) The situational or Contingency Theory.

The Trait Theory: This is the oldest theory ; first generation of psychologists studied a large number of great and successful men of the past attributed their success to such underlying personality traits as aggressiveness, enthusiasm, extroversion, or such personal characteristics as age health, experience etc.

This theory has also been called as the 'Great Man' Theory of leadership. The idea was that if we could some-how observe a large number of great, successful leaders, we could determine a set of common traits, and then use them to identify great leaders of future.

Psychologists grouped these traits into four categories, namely (1) Physical qualities, such as sound health, vitality, endurance etc., (2) Psychological qualities as enthusiasm, forcefulness, ability to inspire, tact etc., (3) Intellectual traits such as high intelligence, sound judgement, scientific approach, ability to teach etc., and (4) Qualities of character such as integrity, fair play, moral courage etc.

The trait theory has been criticized on various grounds. Critics have pointed out that all these qualities are essential for leadership in all spheres

of human activity, and there is nothing particular about them as regards in business. Further, it does not offer any scale to measure the degree of these qualities. It is generally recognized that leadership in different fields, at different levels, and in different situations, requires a combination of these qualities in different degrees. The trait theory, however is neither able to measures the degree of these qualities nor to provide specific combinations (as a doctor's prescription) for leaders in different fields, at different levels, and in different situations. Finally, the theory does not offer any guidance for developing these qualities, and, is therefore, of notmuch use to the business world.

Skill Theory of Leadership : It has been suggested that leadership in business requires three kinds of skills, viz, Technical skill, Human Relations Skill and Conceptual Skill. (Ref ; Study Note No. 5).

Technical Skill : This consists of technical knowledge and practical proficiency in the performance of those activities which a manager is called upon to supervise. Obviously, this skill in necessary in a greater measure at the level of a first-line manager or a supervisor. It is a matter of common experience that a supervisor who has better technical knowledge and greater proficiency, commands greater respect and obedience from his followers.

Human Relations Skill : At middle management levels, departmental heads supervise persons with a wide variety of technical skills. It is however, not possible for them to possess in depth, all such skills, and experience has shown that it may not also be necessary. What they require for success is Human Relations Skill. It means an ability to understand people and to handle them appropriately, an ability to inter-act with people and develop them into effective work-groups or teams. Their success depends on the degree of co-operation they are able to secure from their subordinates.

Conceptual Skill : Top level executives are responsible not only for success in the present but also in the long run. For this, they need not so muce technical skill nor human relations skill ; what they need in a large measure is conceptual skill. It means an ability to predict correctly future environmental developments-technological, economic, social, to calculate their likely impacts, favourable and unfavourable, on one's own business, and then initiate action for ensuring survival and growth of the buiness enterprise ; in short, it means an ability to be visionary.

A merit of the skill theory is that it makes it possible to develop training programmes for managers at various levels.

The Behavioural Theory : Dissatisfaction with the Trait theory led some behavioural scientists to focus attention on leadership behaviour. Their emphasis was on reliable ovservation rather than on internal traits. Their

theory views leadership as performance of those acts which help the group to achieve such preferred outcomes as improved quality of inter-action, to build cohesiveness to make resources available to the group, and to increase its effectiveness.

Three different schools, the Harvard school, the Ohio School and the Michigan School made attempts to measure what a leader actually does in a group. As a result, they came to the conclusion that there are two distinct styles of leadership, namely, Job-Centred and Employee-Centred styles of leadership.

Situational Theory of Leadership : According to this theory, leaders are products of a given situation. A large number of studied have been made on the presumption that leadership is strongly affected by the situation from which a leader emerges and in which he operates. This theory recognizes that there exists an interaction between a group and its leader. It supports the view that people tend to follow those in whom they perceive a means of accomplishing their personal desires ; the leader recognizes these desires and undertakes activities to fulfil these desires. Studies made over many years have shown that effective leadership in a business enterprise depends upon responses to such environmental factors as back ground of the enterprise, psychological climate of the group led, group members' personalities, cultural influences etc.

Fiedlers Contingency Theory : Fiedler and his associates at the university of Illinois have combined, to some extent the trait and the situational theories and have suggested a Contingency Theory of leadership, According to this theory, leadership is a process in which the ability of a leader to exercise influence is contingent upon the group task situation and the degree to which personality, style and approach of the leader fit the group In other words, people become leaders not only because of attributes of their personality but also because of various situational factors and interaction between the leaders and the situation.

According to Fiedler, there are three critical dimensions of the situation that affect a leader's most effective style, They are (1) Power of Position, (2) Task structure, and (3) Leader-member relations,

Power of Position : This is the power arising from the organisational position. It is the degree to which this power, as distinguished from other sources of power such as charismatic personality, or expertise, or integrity etc. enables a leader to make group members comply with his directi ns. Fiedler points out that a leader with a clear and considerable power of position, can more easily obtain better following than one without such power.

Task Structure : It means the extent to which tasks can be clearly spelt out and people held responsible for them. Where tasks are clear, quality of performance can be better controlled and group members can be more easily held responsible for performance, a leader will be more effective than where tasks are vaguely defined.

Leader-member Relations : This dimension is the most important from a leader's point of view. As the power of position and task structure may be largely under the control of the enterprise, the extent to which group members like and trust a leader, and are willing to follow him, will determine his effectiveness.

Leadership Styles : Leadership styles have been classified on the basis of how leaders use their authority. Accordingly, the following three basic styles of exercise of authority have been identified : (1) Autocratic, (2) Democratic, and (3) Laissez faire or "free rein" style.

Autocratic Style : An autocratic leader centralizes all authority and decision making in himself. He believes that men in general are lazy, do not want to take responsibility, and are content to do what they are told. He, therefore, makes all decisions himself, prepares all plans, allocates tasks, and instructs his subordinates what to do and even how to do

Democratic Style : A democratic leader decentralizes managerial authority. He beiives in the potential of his followers, in their intelligence and in their capacity to accept responsibility. He, therefore, consults the members of his group, brings them in on his problems, invites their suggestions and participation and arrives at his decisions in consultation with his followers. He keeps them informed about matters affecting them and their work and encourages them to put forward their ideas and suggestions. Whereas an autocratic leader exercises power over his followers, a democratic leader develops power with his group.

Laissez-faire Style : A laissez faire leader leaves the group largely to itself to establish its goals and work out its problems. The group members are given a high degree of independence, train themselves and provide their own motivation. The leader serves only as a "contact", to bring his men information and resources they need to accomplish their job.

Evaluation of Leadership Style : An evaluation shows that each has its merits and limitations.

Authoritarian Leadership provides strong motivation and fuller reward to the leader himself ; it means quick dicisions as the leader does not consult anybody else ; it enables him to use less competent sub leaders and assistants ; it is fairly effective with uneducated, unskilled and submissive followers in getting work and providing them some security and satisfaction.

Autocratic leadership cannot, however, always and under all conditions, be effective. To-day, when workers are educated, well organized, and are conscious of their strength, power or threat has ceased to be as much effective as in the past. Further, an autocratic leader cannot utilize full potential of his men, and cannot inspire them to excel; he has to remain content with minimum contribution from his followers. In the absence of such a leader or when he is not available, or is not able to give a definite lead, has followers are likely to get in disarray and fail to reach even normal goals.

A democratic leader multiplies his abilities through his followers, whereas an autocratic leader uses only his own abilities. The former provides his men with necessary information, a measure of guidance and support but gives greater freedom to them to suggest their ideas and to carry out their work; and yet, he retains ultimate control with him. A limitation is that it requires a leader with considerable skill of communication and co-ordination, to deal with intangibles and variable group interactions.

A laissez-faire leader ignores the leader's contribution in the same way that an autocratic leader ignores that of his followers. He fails to give his group the advantage of leader-inspired motivation; he allows individuals and groups to move in different directions and often at cross purposes, with the result that the organisation's resources may be frittered away and achievement of goals is left to chance.

Of the three styles, democratic leadership is likely to have the greatest promise to achieve maximum productivity and employee satisfaction, in the long run. It must, however, be noted that autocratic leadership may prove successful with some groups and in some situations, perhaps in the short run. Further, democratic leadership, when used by unskilled and less sensitive leaders, may lead to a chaotic situation.

Two Supervisory Styles: Researchers of the Michigan School made studies of a large number of supervisors in action in a number of factories, and concluded that there are essentially two supervisory styles, namely, (1) Production-centred Supervision and (2) Employee-centred Supervision.

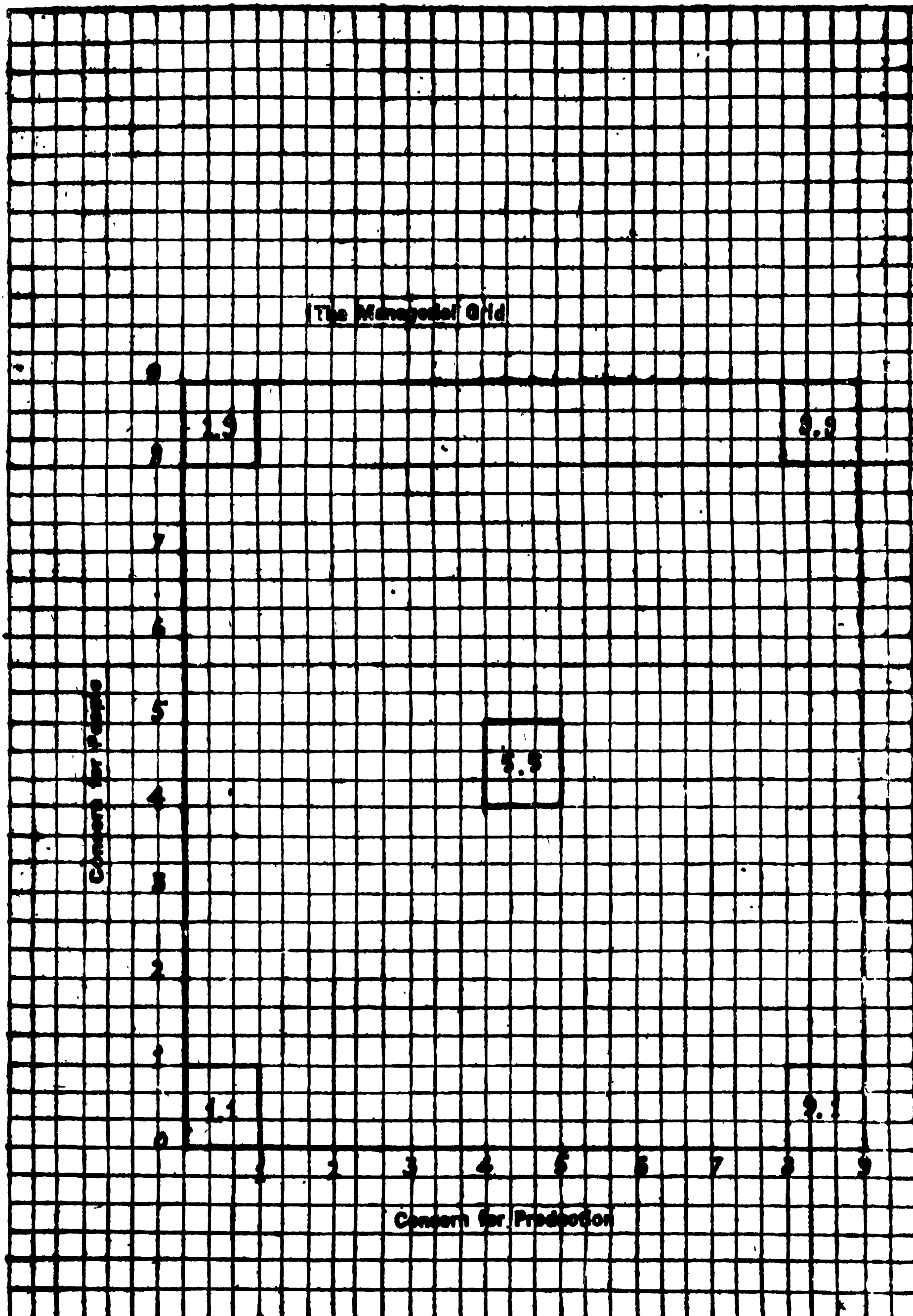
Production-centred of Supervision: A supervisor is rated as production-centered if he considers as his main job, "getting the work done" and regards his men primarily as instruments for doing this, rather than as human beings with needs and emotions similar to his own. He is more detached or non involved, or more objective than an employee-centered supervisor. However, he does not hesitate to insert himself into the daily flow of work, if he sees something being handled in a way he does not like; it is by no means uncommon for him to handle some of the work personally when that appears to be the most expeditious way of completing it: he is

quite specific about his instructions and does not like any deviation from them. In short, his style, in contrast to that of an employee-centred supervisor, is far more active alert and driving.

Employee-centred Supervision: A supervisor is rated as employee-centered if he considers supervision of his men, rather then expediting production, as his main job. His method of getting the work done", therefore, is to provide his subordinates information, materials and organisation they need, and give them a general outline of how the work is to be accomplished. Having done this, he leaves details to the workers themselves ; he does not keep a particularly close watch on how the work progresses ; he assumes that his men are responsible enough and capable enough to do the work without the pressure of some one looking over their soulders. In effect he allows them to handle most of the production problems themselves, though he is always available for rendering technical assistance and for securing necessary facilities from higher management, if and when required.

According to the Michigan School researchers, an employee centered supervisor was found to be more effective than a production-centered supervisor, in most of the settings they had studied. Their studies indicated that emphasis on productivity, at the expense of worker's dignity is the surest way of defeating the very purpose ; they also brought out the fact that lack of interest and responsibility on the part of workers is a natural consequence of the supervisory style, and are not neces arily natural attitudes of workers towards their jobs. From this, it follows that a supervisory style affects group motivation and vice versa and, as a consequence of this interaction, the most effective style of supervision from the stand point of production, is normally one which is mainly concerned with employees' needs, rather than production itself,

Managerial Grid: Robert Black and Jane Mouton conducted their own research and developed their now famous concept of managerial Grid for dramatising leadership effectiveness. On this grid, the vertical axis represents "Concern for people", and horizontal axis, 'Concern for Production' ; in addition, on each axis, there is a scale ranging from 1 to 2, for measuring degree of concern for people and for production (Ref : Figure on p. 179)


The Managerial Grid
Concern for People
Concern for Production
1.9
9.9
5.5
1.1
9.1
1 2 3 4 5 6 7 8 9

It may be seen from this Figure, that there are five basic leadership styles. The person who is a 1.1 manager, has little concern for either people or production and would be called an Indifferent Manager: the 1.9 who shows great concern for people but little concern for production, would be called a manager who seeks "chep popularity"; the 9.1 manager who has great concern for production but little concern for people, would be called a Task Master; the 5.5 manager who has a balance between his concern for people and for production, would be referred to as Middle of the Road Manager; the 9 9 Manager who shows maximum interest both for people and for production would be called a "Team Manager", an "Ideal Manager" or "Most effective Manager".

After developing their concept of the managerial grid, Blake and Mouton developed a six-phase training programme for developing effective managers. Many American Companies found this programme helpful in orienting 1.9 managers more interested in the production side and 9.1 managers more interested in the people side. The six phases of the training programme are (1) Laboratory Seminar Training, (2) Team Development, (3) Intergroup Development, (4) Organisation Goal Setting, (5) Goal Attainment, and (6) Stabilisation.

Conclusion: It may be noted in general that there is no such thing as "the one best leadership style" or that any one style is consistently superior. However, Fiedler's contigency or situational approach, which places prime emphasis on three major situational variable, viz (1) leader-member relations, (2) task structure, and (3) power of position should be of great value to practising managers. It suggests that a manager, to be effective, should be able to size up continually situational variables, to enable him to adapt his style to the total situation.

THEORIES OF LEADERSHIP

According to Prof. Peter Diucker, a universally recognised management thinker, "Leadership is not magnetic, chariomatic personality; that can just as well be damagegury, it is not making friends and inffuencing people; that is salesmanship. Leadership is lifting a man's vision to higher sights, raising a man's performance to a higher standard, the building up of a man's personality beyond it normal limitations". Its essence lies in making a common man do uncommon things.

In management literatures as well as in managerial speeches, managers are after told that they are leaders of men and must be seen as such.

This cannot be accepted as an unqualified statement It is true that there are many points of similarity between the two, but at the same time, there are distinct points of difference. It is, therefore, very necessary for studeñts of management to know the points of similarity as well as those of difference. There are indicated briefly here.

1. Both leaders and managers require, for performing their functions. Certain basic trails or qualities such as physical intellectual, and phychological qualities, as well as quanlities of character.

2. Both of them have to set up goals and standards of performance, mobilise resources, assign tasks, and inspire their followers, subordinates for higher performance.

3. Both of them are involved in interpersonal relations with the subordinates, colleagues as well as superiors.

4. Both of them have moral responsibility to their followers for providing them opportunities for career development, and also actively help and guide them in their efforts.

As against these similarities, there are the following points of difference between them, and managers should be well aware of these :

1. The essential basics of leadership is power to command, based on their charisma, knowledge, competence and capacity to give rewards. The basis of a manager's authority is his position in the organisation and it has a very restricted scope.

2. The leaders derive their power from the acceptance of their leadership by a large majority of followers. Managers derive their authority from their superiors and its acceptance by subordinates is not necessary.

3. Leaders not only influence their followers, they are also influenced by them. It is reciprocal. Managers exercise influence downwand on their subordinated, they may refuse to be influenced by their subordinates.

4 Leaders have to shape the views, aspirations and values of their followers. they have to place before them wrider goals and higher values. Howeer to continue their leadership, they have also to

reflect, partly the aspirations and values of the followers. Managers, on the other hand, have to keep before the subordinates the objectives, the goals and the standards set up by the higher management and they are not in a position to reflect the goals and values of the subordinates.

5. Leaders are largely influenced in their decision and actions by emotional, sentimental considerations Managers are largely influenced by technical and national considerations.

6. Leaders operate in an open, unstructured and flexible environment. Managers. have to operate within many organisational constraints; they have very limited freedom in taking decisions and actions.

7. Leaders are generally elected by their followers and do not need any professional expertise. Managers are selected through an elaborate scientific screening process, and on the basis of actual or potential competence.

8. Leaders are in a position to offer a variety of tangible rewards to loyal followers. Managers have very limited authority to grant rewards to their subordinates, and in granting them they have to keep in mind efficiency and productivity and not loyalty.

Theory of Leadership Skills: This theory has been advocated by prof. K. Davis. According to him, a manager as a leader needs a variety of skills to be effective and to achieve results with the help of his men These include the following: (1) Tehcnical skill, (2) Communication skill, (3) Huaman relations skill (4) Administrative skill and (5) Conceptual skill The nature of these skill is explained briefly here.

1. *Technical skill*: It implies an understanding of and proficiency in a specific kind of activity, particularly one involving methods, procedures, techniques etc. It involves specialised knowledge and analytical ability with in that speciality, and facility in the use of tools and techniques in that specific discipline and solve problems and achieve concrete results.

2. *Communication skill*: It implies ability to communicate effectively ideas and information to the subordinates as well as receive correctly their ideas, suggestions grievances. The purpose of communication in management is to influence favourably the views, opinions,

attitudes, and finally the behaviour of those to whom it is directed. Managers need skill in communicating downard in carrying out his functions of planning, directing and controlling ; and they need skill in encouraging up ward communication from the subordinates on motivating them. To-day the importance of communication has increased so much that it has been raised to the *principle of Management by Communication.*

3. *Human Relations Skill* : It involves a number of abilities and skills. Firstly, it involves an ability to recognise one's one own feelings and senti ments which one brings to a situation. Secondly, it involves an attitude about his own experiences which will enable him to re-evaluate them, and to learn from them. Thirdly, it implies an ability to understand what others, by their actions and words (explicit and implicit), are trying to communicate to him. Fourthly, it involves an ability to communicate successfully his ideas and attitudes to others.

In essence, human relations skill requires an ability to create an atmosphere of approval and security in which subordinates feel free to express themselves without fear of criticism or redicule, by encouraging them to participate in planning and carrying out things which directly affect them in their day-to-day work. It further involves awareness of one's own attitude, assumptions beliefs about other individauls and groups, ability to see the usefulness and limitations of these. This would enable one to understand what others really mean by words and behaviour,

Administrative skills : It implies an ability to secure resources and facilities from colleagues and superiors to enable subordinates to get on with their work and achieve results. A manager, however competent he may be, if he lacks this stall, is likely to cease to be effective with his subordinates and would be unable to secure their enthusiastic and whole-hearted cooperation.

Conceptual skill : It involves the ability to see the enterprise as a whole, to see how the various functions depend on one another, and to see how changes in any one part will affect all other parts. It involves the ability to visualise the relationship of the individual to the industry, to the community, and to the political, social, and economic forces of the nation. It requires the ability to perceive the significant elements in a situation, and act in a way which will enable to achieve the long-term objectives of the

organisatton. Further, effective coordination of the efforts of different parts of the organisation also depends on this skill.

The merit of the skill theory of leadership is that it has led to the formulation of suitable training programmes for helping managers to develop their ability and skills in each of these skills. Some of these trainin programmes have been discussed in the chapter on Executive Development.

Likerts Management Systems: Professor Rensis Likert of the Michigan University, conducted extensive research on management and leadership patterns in a large number of organisations. To channelise properly his research work, he evolved four models of management which he called systems of Management. These systems he labellted as follows :—

System 1—Exploitative, authoritative

System 2—Benevolent—authoritative

System 3—Consultative

System 4—Participative—democratic

The main features of these systems are described briefly below.

System 1 Management: The management, managers and supervisors in this sytem are highly autocratic. They alone determine ont only the objectives and goals of the organisation, but also the manner in which they are to be achieved. They give detailed instructions to their subordinates, and expect them to carry them out without using any discretion. They exercise strict supervision and control over the subordinate to achieve predetermined result. The only motivation they use is punishment or threat punishment.

System 2 Management: Managers in this system are only slightly less autocratic than those under System 1 Management They adopt generally a paternalistic attitude towards their subordinates. They believe that they know what is good for their subordinates and provide them such facilities whether they want them or not.

System 3 Management: Managers in this system believe that employees, even uneducated ones, are capable of suggesting better methods of

work, reducing waste, and improving overall efficiency and productivity. They therefore, are inclined to consult them on matters which affect them in their day-to-day work, and so encourage them to communicate upward freely. They for show preference for positive motivation that is, regards for motivating employees for higher performance.

System 4 Management : This is described as democratic, participative management. Managers in this system believe in democratic values and recognise dignity and self respect of their subordinate. They, therefore, involve their subordinates in decision-making and goal setting. They allow considerable freedom their subordinates in organising and executing their responsibilities. They communicate fully to their subordinates and encourage them to communicate their ideas, suggestions and criticism fully, frankly, and without fear. They show greater preference for social and psychological incentives for motivating subordinates.

Prof. Lekert identified certain behaviour and performance characteristics such as absenteeism, employee turnover quality of production, wastage of resources, and overall productivity, and related them to each Management System. He found that organisations under System I, scored very poorly on these items, while those under System 4 performed highly creditably. He, therefore, strongly advocated System 4. He strongly believed that participative approach alone can optimise organisational performance and employee satisfaction. He therefore, recommended that managers operating under Spstem 2 and System 3 should undergo intenstve leadership training to raise them to the level of the System 4 Managers.

Criticism of Likert's Systems of Management :

It has been generally recognised that Likert' Management Systems Approach does provide valuable guidance to the top management in identifying the leadership patterns of its managers, and in training them to rise to what he regards as the ideal pattern, that is, the System 4 managers.

However, the implication of his conclusion that the democratic participative leadership can be effective under all conditions cannot be accepted. In fact, the situationai theory of leadership effectiveness, which has been widely accepted, points out that there is no ideal theory and the effectiveness of a leader depends on a large number of factors

such as the qualities and the skills of the leader himself, and those of his subordinates, attitudes of the subordinates towards the manager, towards the organisation, towards their collegues, and towards their jobs, as well as the technology of production, and the authority of the manager to reward his subordinates.

In conclusion, it can be stated that Likert's theory is useful only to the training managers in developing training programmes in democratic, participative management. It cannot be accepted as a complete theory of leadership effectiveness.

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. What is the purpose and function of "MIS"? Discuss fully with reference to different levels of management.

2. "The carrot and the stick" theory of motivation is no longer applicable to-day. Do you agree with this view? Give reasons for your answer.

3. Examine critically Maslow's theory of Need Hierarchy.

4. Discuss briefly the important factors which influence employee performance.

5. Explain the importance of communication in management and discuss the type of information management should provide to employees and why.

6. What are the barriers to communication? Suggest measures to overcome them.

7. Describe briefly the different style of leadership. Which of these, according to you, is more effective with employees to-day?

8. Write notes on: (1) Herzberg's Two-Factor Theory of Motivation, (2) Job Enlargement, (3) Dr. Mc Gregor's Theory Y, (4) Worker Participation in Management, (5) Employee-centred supervision, (6) Managerial Grid, (7) Cybernetics.

9. "Leadership is visible but eludes definition": Discuss the attributes of leadership and suggest a definition. Also evolve a leadership function out of the relevant variables.

10. Discuss critically the various theories of Leadership.

STUDY NOTE : VII

I

CONTROL : GENERAL

Managerial function of control is measurement and correction of performance of activities of subordinates, in order to ensure that enterprise objectives and plans devised to attain them, through planning organising, staffing and directing, are being properly accomplished. It is thus the function of every manager, from managing director to a supervisor ; some managers tend to forget that primary responsibility for exercise of control rests with every manager charged with execution of plans

In the past, managers believed that need for control arose only when something went wrong, as for example, when actual production fell short of the fixed quota ; or when certain expenses were found to be abnormally high ; or when production had to be stopped because the required raw-material was not available. And then the object of control was to find out those responsible and to take disciplinary action against them. Modern management regards this as only a negative approach to control. According to the modern view, a primary object of control is to bring to light variations between the standards laid down earlier and the actual performance, as soon as they appear, & then initiate corrective measures immediately,to prevent similar variations in future. the essence of control thus is that it is aimed at results and not necessarily at people as such To achieve this, control, like other elements of the management process, has to be continuous and not an occasional or an emergency operation. In the light of this, control may be defined as a continous process which helps a manager to get performance of his subordinates as closely as possible to the objectives, goals or targets fixed to detect variations between them and the actuals as soon as they occur, and to take corrective and timely steps to prevent similar variations in future. Control and Evaluation are thus two nodes of the same process.

Necessity of Control : Necessity of control in business organisations arises due to a number of factors One is complexity of organisations them selves. The larger the organisation, the more difficult is the control process with respect to overall results ; this is because the control process requires establishment of clear standards of performance, setting and measurement of which present difficulties ; moreover, an executive exercising control also needs all kinds of timely information, etc. collection and presentation of which are also not easy.

The second factor is the general psychological make-up human beings. It is, for example, a matter of common experience that in the absence

of any control, individuals become lax in their efforts and if this situation continues, they tend to get accustomed to a level of performance for below normal. Again, absence of control may lead to a lowering of morale among employees, since they cannot predict what will happen to them ; they may begin to suspect that in the absence of clear standards of performance and therefore ; absence of control, they may become victims of the whims of their superiors ; some of them may be shown partiality and favouritism. whilst others undue harshness.

A third factor is the existence of many temptations in business ; employees have to be entrused with large sums of money, with valuable raw materials, and more valuable trade secrets ; managers are vested with authority and discretion to use it. In the absence of control there is a greater likelihood of yielding to various temptations. Existence and operation of an efficient system of control, however, creates an atmosphere of order and discipline, and helps in minimizing chances of dishonest behaviour on the part of employees.

Steps in Control Procedure : It is necessary for control that top managements first ensure that all other managerial efforts are basically sound, for, control is not something which may be applied after all else has been done. It must be an integral part or the total managerial efforts. Thus, if planning and staffing are sound, they will provide a measure of control ; similarly, if an organization structure has been carefully built, there will be less tendency for the organisational force to get out of control. In this way, skilful exercising of other managerial functions will provide some built in control. However, managerial practices may often be found to be somewhat imperfect, on account perhaps of human limitations and top managements must therefore establish a sound procedure for control.

There are three essential steps in any control procedure : (a) setting up standards at strategic points, (b) checking and reporting on performance, and (c) taking corrective action.

Setting up Standards at Strategic Points : Theoretically, setting up of standards for controlling is a simple task. In actual practive, however, it is not so as it is necessary to take three important steps before attempting to compare actual performance with the standards. These are : (1) ensuring that the standards established are clear and meaningful, (2) identifying responsibility for different goals with definite individuals, and (3) selecting strategic points for setting up standards.

Ensuring Clear and Meaningful Standards : The standards set should be clear, not only to the authority who has set them, but also meaningful to those for whom they are ment.

Identifying Responsibility : It is also necessary to identify responsibility for different goals with definite individuals in the organisation. If this is not done, it may not be possible to take any action even when variations between performance and standards are brought to notice.

Selecting Strategic Control Points : It is obvious that a manager cannot check performance of all activities under his direction against the numerous goals that might have been set up. This is especially so as a manager moves up in the managerial hierarchy and has a wider range of activities under his direction. It thus becomes necessary for him to concentrate only on certain strategic points in the operations or on composite figures which should indicate how well a number of important standards are being adhered to. Even at these limited control points, it may become necessary to resort to sampling of other devices to keep the burden of control within reasonable limits.

Guides for Selecting Strategic Control Points: Prof. Newman has suggested that the control points should be (1) Timely, (2) Economical, (3) Comprehensive, and (4) Balanced.

Timely Control points : The control points should be timely in the sense that they should be able to reveal in time significant deviations, thereby saving further losses. For example, in quality control, points at which inspection is insisted on in order to avoid further processing costs, belong to this class. Similarly, controls designed to stop action before serious damage is caused are also in this category. For example, for various machines in a factory, standards of preventive maintenance are designed so that a little before a machine reaches the point, it is stopped and taken up for overhaul and repair. This helps to prevent unexpected machine break-downs and consequent heavy losses,

Economical Control Points : Secondly, control points should be such as to permit economical observation and report. For example, sales data classified according to products, locality and salesmen, belong to this category. However, when measurement of results is difficult or is expensive, as for example, consequences of a purchase manager's decisions, control is placed on the process itself ; in the case of the purchase manager, certain steps such as, establishment of specifications ; receipt of a minimum number of quotations etc. are insisted upon before he makes a decision about a supplier.

Comprehensive Control Points : Controls which summarize or consolidate a series of operations belong to this category. Over-all expense figures expressed as ratios to volume, are examples ; these ratios, for different

periods and for different operations, give the top management a comprehensive pricture as to what is happening and where to step in for further action.

Control Points for Balanced Performance : Lastly, control points should be such as would promote balanced performance. If, for example, controls have been established over expenses, there may be a tendency to lower quality of products or service ; control points in this case should be such as to prevent this. Again, if in sales, a rigid quota is fixed for actual orders received, salesman may neglect cultivation of new prospects and push for an immediate order even though it might endanger customer goodwill ; a sales manager must, therefore select suitable control points which would help him to prevent this from happening.

Checking on Performance : The second step in the process of control is to compare actual performance with the goals and standards established ; three usual methods used are (1) Prior Approval, (2) Checking only the exceptional and (3) Personal observation.

Prior Approval : Many managers insist on prior approval before allowing a work to proceed. A credit manager, for example, may insist on examining credit worthiness of a customer whenever a sales manager suggests a credit sale, to make sure that credit standards laid are being observed. In many companies, price changes have to be approved by top executives before they are made effective.

There are reasons for this ; one is that a manager feels confident that the work is proceeding as planned when he has checked it at every step. Further, it gives him added assurance that the standards laid down will be maintained. It must, however be noted that this method is cumbersome and is likely to cause delay in action.

Checking the Exceptional: Ordinarily, a large part of activities of any enterprise must proceed without waiting for approval of some higher executive. The purpose of control then, is to appraise current and completted action, in order to provide a basis for regulating future activities, by concentrating on unexpected or unusual results This is called the Principle of Exception ; it means that as long as operations go according to plan, there is no need to submit reports ; only when unexpected result occur, there is need for reports and corrective action, Consequently, control authorities make it a rule that reports shall be submitted on unexpected or unusual results ; and in the absence of such reports, they would presume that all activities are proceeding as planned. This arrangement will work only if plans are clear to all managers and their subordinates, and is responsibility for reporting is suitably located. This method is, usually, suitable

for routine activities, but it is not advisable to rely entirely on it ; it should be supplemented frequently by comprehensive data about the general situation.

Personal Observation : The third method of checking performance is personal observation, which has been recognized by military authorities as a very valuable method. Top executives of many business enterprises also make frequent visits to their plants and their regional sales offices. Depending upon his abilities to visualize situations and to feel the atmosphere, an executive may be able to get a realistic mental picture of the operating situation, an acquaintance with the people involved, and understanding of the attitude and reactions of employees and customers. All this would add up to a good understanding of what is and what is not, happening, an understanding which he can never hope to get from written reports. An executive who has been to the factory in the morning or who has talked to customers or salesman in the field a week before, is in a better position to understand and appraise other reports on performance that he has received. Moreover, his personal contract with the rank and file will always have a favourable effect on their morale.

Reporting : Having checked the performance, the next step is to prepare a report action. Such a report, to be of any value, should be submitted as promptly as possible after checking. Prompt reporting, in the first instance, helps in diagnosing the situation. If, for example, a report showing higher transport expenses in one month is received say in the last week of the next month, it will have lost some of its value ; for, when an executive tries to discuss the causes with the person in charge of transport, the latter may have to depend on his memory ; he may not remember the real causes and is likely to make up some plausible execuses to save himself. Secondly, promptness of a report can add significantly to the effectiveness of control. If, for example, the fact of higher transportation expenses is promptly reported, it is likely that corrective action will be taken immediately and this will help to prevent, or at least minimize, future losses.

As regards contents of a report, there is a general impression that the more information it contains, the more useful it is for control purposes. This, however, is not at all true ; men of action like engineers and salesman, primarily interested in results, find the work of preparing detailed reports time consuming and some what irritating and irksome. This makes it necessary to make the report as brief as possible ; this is in the interest of the person who has to prepare that report, as well as, the person who has to read it and take action on it. Nevertheless, such a report should briefly contain a comparison of actual performance with the standards set, a short

explanation for wide variations from srandards, and if possible, proposal for remedical action.

Taking corrective action : The two steps, discussed so far, are really prelude to control. They may be carried out to perfection and, yet, no control action may result unless these have desired influence on the behaviour of those taking necessary action. In other words, the third step of corrective action is imperative before there is any visible control. This may be achieved by taking the following measures (1) adjustment of physical conditions or external situation, (2) review of direction, training and selection, and (3) modification of earlier plans of targets.

Adjustmenti of Physical Conditions : Operating plans and goals are based on forecasts regarding future conditions ; however, actual conditions may turn out to be different because of unexpected developments and as a result, variations occur between achievements and targets. It is, however, the responsibility of a manager to attempt to make conditions conform to the forecasts, as far as practicable. He can do this in a number of ways : He will try to ensure that raw-material come in time and that semi-processed goods move from department to department in time ; again. if there is a break down of any machinery, he would arrange for spares or for prompt repairs, with minimum interruption to production processes. He will also try his best to maintain satisfactory working conditions. Thus, in a variety of ways, he could try to influence physical conditions and external situation in such a way as to facilitate achievement of goals and targets.

Review of Direction, Training and Selection : A second broad area for corrective action is in making sure that individuals entrusted with responsibilities are properly directed. Quite often, failure to meet standards can be traced to inadequate direction and an executive, therefore, should review, with his subordinates, the instructions given and find out reasons. This would enable him to give clear, complete and reasonable instructions in future If, however, the failure has been due, not to incomplete understanding of instructions but to lack of training and experience on the part of a subordinate, the corrective action might consist of providing suitable training to him as soon as possible. If he learns to handle his job satisfactorily, within a reasonable time after training, he should be left on the job ; but if it is discovered that he lacks some of the basic abilities required to perform his job, he should be replaced by a more capable individual, and he may be transferred to a job for which he is more suited,

Modifications of Plans and Targets : It is well known that there are many external factors such as Government policies, social developments, nature of competition etc. which cannot be adjusted by executive action

and which have to be accepted as facts of the situation. The alternative for an executive then is to revise his plans in the light of these factors. Similarly, it may not always be possible to arrange for prompt replacement or repairs there is a break-down of machinery; he must then revise his of production, and if necessary, adopt a different method of production. A careful review of operating experience might also suggest ways and means to improve standing plans. It may be that standards set have been too high, or that policies need clarification to avoid frequent exceptions, or methods require modifications to make better use of available facilities or personnel. If, fortunately, on the other hand, operating results turn out to be much better than established standards, attempt should be made to discover the reasons and, if it is found that the better results are due to the prevailing policies, they may be modified suitably as standard procedures.

II

CONTROL OF AREAS OF PERFORMANCE

A key purpose of control is to measure the performance of individual managers in their respective areas, and to ensure that their performance comes up to the pre-determined objectives, goals and targets. The main areas in which performance of managers may be measured for purposes of control, are (1) Production, (2) Materials and Inventories, (3) Finance and (4) Employee Morale

Measurement and Control of Production : Top managements require that a production manager makes full utilization of machines, materials and human resources entrusted to him, to secure maximum output, of the prescribed quality, in the time alloted and within the predetermined cost of production. This is a basic necessity in order to be able to sell in a competitive market and earn sufficient profits to enable the business to survive and to grow.

A production Manager is generally entrusted with the responsibility of control of production, Henry Gantt was the first to develop for him the format and industrial application of a chart which became famous as Gantt Chart for production control. It is an operating chart which furnishes information for action. In this chart, horizontal space divisions indicate passage of time a day or a week, and light horizontal lines show the amount of work scheduled during the time represented by that space ; heavy or dark horizontal lines indicate cumulative amount of work actually done upto a given date.

Through widely used, a Gantt Chart suffers from serious weakness. It shows short fall in production only after it has occured and does not prevent it from occuring. Secondly, it does not show inter-dependence which exists between different activities shown by the horizontal lines, and so does not offer any guidance for controlling important activities with a view to achieving targets of production in time.

Programme Evaluation and Review Technique (PERT) : A better technique for production control, developed in England and U S A., is popularly known as PERT, the basic concept being a time-event Network Analysis. It consists of the following steps and is, in a sense, a variation of milestone budgetting :

1. Development of a model—(net work) of some contemplated activity.
2. Evaluation of the network and its adjustment in such a way as to provide a degree of assurance that, if the operating plan described by the net work is followed, there will be a minimum of risk in reaching the objective or target on time,

3. Use of the network to monitor and control the operation it represents ; The network describes the series and parallel sequences of activities and events which must occur to achieve the end objective ; estimates are then made about expected time required for completion of each activity ; from this calculations are made regarding probable length of time required for the different series-sequences of activities, which connect the start of programme with the end or objective event.

Of the different sequences described, one will be longer than the other sequences or paths. This is called the critical path, because it is the one which determines the length of time required to reach the objective event. Its main features are : If the programme is to be shortened, one or more activities on this path must be shortened or eliminated ; application of additional effort anywhere else on the net work will be useless. Secondly, if the time required for actual performance of any activity on the critical path varies from the calculated expected time, the variations will be reflected in one-to-one fashion in the anticipated accomplishment of the objective event.

PERT was initially developed by the American Navy to enable it to complete a strategic project in a shorter time than what it would have normally taken and in this, cost was not an important consideration. Its success, however, attracted the attention of business executives who were called upon to carry out projects involving engineering, construction and maintenance of power installations ; housing, road and irrigation works, in time and within stipulated costs. However, they found that PERT was not adequate for their purpose as it did not pay much attention to cost They, therefore, needed a better technique of planning and control and, it was in response to this need, that the technique of Critical Path Method (CPM) was developed. It has since been widely used in big projects such as, repair of power plants, construction of ships, bridges, dams, market research projects, product launching, advertising campaigns etc.

Critical Path Method (CPM) : Like the PERT, critical path method starts with arrow diagraming which incorporates all the elements of a project. The arrows interconnect to show the sequence in which the task or activities will be performed. The result is the diagram which is, in effect, a network. The next step is to prepare two sets of estimates ; for each activity in the network : (1) the normal time estimate and normal cost estimate, and (2) the crash time estimate and crash cost estimate. The normal time estimate is similar to "The most likely time estimate" as in PERT; and the normal cost is the cost associated with completing the project on normal time. On the other hand, the crash time estimate is the time that would be required if

no costs were spared in trying to reduce completion time, ond crash costs are the costs associated with doing the job on a crash basis in order to minimize completion time. The purpose is to determine where, on the capital path, substantial reduction on time can be achieved for minimum expenditure of additional cost.

Control through Materials and Inventories ;—

Funds permitting, there appears to be a tendency to hold substantial quantities of raw materials, components, inventories etc in stock, to ensure uninterrupted production. It was gradually discovered that this advantage was, however, in great many cases, more than neutralised by high inventory-holding costs, such as interest on capital locked up, warehousing, insurance and other charges, losses due to wastage, pilferage, obsolescence etc.

This led to the development of technique of materials and inventory control, such as :

(i) Minimum level, (ii) Re-order level, iii) Economic lot size, (iv) Economic order quantity and (v) Maximum level, in respect of all items to be stocked.

And again, there is the "ABC analysis", which marshalls the stocks of priority item groups, needing constant attention and strict control

Use of techniques, such as the foregoing has helped managements to reduce substantially quantities and types of inventories, in stock, thereby reducing relative inventory costs by crores of rupees.

MEASUREMENT AND CONTROL THROUGH FINANCE

Use of financial Ratios ; A financial ratio expresses relationship between two accounting figures (taken from Trading Account, Profit and Loss Account, or Balance-Sheet) in mathematical terms. It helps to make a qualitative judgement about financial position and performance. To obtain a better idea of managerial performance, comparison should be made between.

(1) Ratios for a few past years with ratios for current year,

(2) Ratios for a few competing successful firms and its own ratios.

(3) Ratios for the industry to which the firm belongs and its own ratios.

The following four types of ratios have been widely used for measurement of different aspects of managerial performance ; (1) Liquidity Ratios, (2) Debt Equity Ratios, (3) Activity Ratios, and (4) Profitability Ratios, Liquidity ratios measure a firm's ability to meet current obligations, debt-equity ratios show proportion of debt and equity in financing the firm, activity ratios reflect the firm's efficiency in utilizing its assets, and profitability ratios measure overall performance and effectiveness of the firm's management,

Liquidity Ratios ; A firm should ensure that it does not suffer from lack of liquidity, and also that it is not too liquid. Failure of a company to meet its obligations due to lack of sufficient liquidity will result in poor credit rating and loss of creditors, confidence. On the other hand, a very high degree of liquidity is also bad. because idle assets earn nothing and yet they have to be paid for. The ratios which indicate the extent of liquidity are : (1) Current ratio and (2) quick ratio.

Current Ratio : It is calculated by dividing current assets by current liabilities :

(Current assets ÷ Current liabilities)

Current assets include cash and those assets which can be converted into cash within a year, such as marketable securities, debtors, inventories, and prepaid expenses. All obligations maturing within one year are included in current liabilities and these include creditors, bills payable, back overdraft, income tax liability and long term debt maturing in current year. A ratio of greater than one means that the firm has more current assets then current claims against it. As a conventional rule, a current ratio of 2 to 1 is considered to be usually satisfactory,

Quick or Acid Test Ratio : It is a more rafined measure of a firm's liquidity, It shows the relationship between quick or liquid assets and current liabilities. Liquid assets include cash, bills receivables, book debts and short term marketable investments.

[Quick or Acid Test Ratio = Quick or Liquid assets ÷ Current Liabilities]

Generally, a quiek ratios of 1 : 1 is considered to represent a satisfactory current financial condition.

Debt-Equity Ratio : It is the measure of the relative claims of creditors and owners against the firm's assets. It is calculated as follows :

[Debt-Equity Ratio = Long term debt ÷ Shareholder's Equity.]

A high Debt Equity Ratio means that the claims of creditors are greater than those of the owners. A very high ratio is, therefore, unfavourable from the firm's point of view ; it may mean increasing pressures of interference from creditors, On the other hand, a low debt equity ratio represents a satisfactory capital structure since it provides a larger margin of safety,

Activity Ratios : These ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets ; these are also called turn-over ratios because they indicate the speed with which assets are being converted into sales. A proper balance between sales and assets generally indicate that assets are well managed. The more important of these ratios are : (1) Inventory turn-over, (2) Debtors turn-over and Collection Period, (3) Total Assets Turn over and (4) Capital employed turn-over.

Inventory Turn-over Ratio : This ratio indicates the efficiency of inventory management. It is calculated by dividing cost of goods sold by average inventory.

[Inventory Turnover=Cost of Goods Sold÷Average inventory]

The figures of cost of sales is arrived at by deducting closing stock figure from the total of opening stock plus manufacturing costs ; average inventory figure is calculated by adding opening and closing stocks and dividing it by 2.

When figures of cost of goods solid of average inventory are not easily available. Inventory turn over is broadly calculated by dividing sales by closing stok. (Inventory turnover=Sales÷Closing stock). A high inventory trunover indicates a good inventory management, and a low turnover suggests an inefficient inventory management. The latter implies execssive inventory levels which are not warranted by production and sales.

Debtors turnover Ratio : Debtors Turnover is used to judge the quality or liquidity of debtors. The ratio is found out by dividing credit sales by averge debtors ; average debtors is calculated by adding opening and closing balances of debtors and dividing it by 2. This ratio indicates the number of times. on the average, that debtors turn over each year.

Average Collection Period Ratio : This ratio is calculated as follows :

Average Collection Period=Debtors × Days in the year÷Sales.

This represents the average number of days for which the firm must wait, after making a sale and before collecting cash from a customer.

This ratio measures the quality of debtors, since it indicates rapidity or slowness of their collectibility ; shorter the period, better the quality of debtors, for it implies prompt payment by debtors. On the other hand, an excessively long collection period implies a liberal or inefficient credit policy and collection performance ; it delays collection of cash, impairs debt paying ability of the firm and implies a possibility of more bad debt losses.

Fixed Assets Turn-Over Ratio : This ratio measures the efficiency with which the firm is utilizing its investment in fiaed assets, such as land, buildings plant, machinery etc., and also indicates the adequacy or otherwise of sales in relation to fixed assets.

Fixed Assets Turn Over=Sales÷Net Fixed Assets.

Generally, a high fixed asset turnover ratio indicates efficient utlization of fixed assets in generating sales. while a low ratio points to inefficient management.

Total Assets Turn-over Ratio : In addition to fixed assets, other assets also contribute to production and sales of the firm and they must also be managed efficiently.

Total Assets Turn-Over=Sales÷Total Assets.

This ratio is significant, as it shows the firm's ability of generating sales from all reasources entrusted to it. A firm's ability to produce a large volume of sales on relatively small total assets, is an important measure of the firm's overall performance in terms of profits.

Capital-employed turn over ratio : It represents the ratio of long term funds, (Shareholders' funds+long term borrowings) to the sales of the firm.

Capital-employed turn over=sales÷Capital employed.

This ratio indicates the degree of ability of the firm to generate sales per rupee of long term investments ; the higner the ratio, the more efficient is the utilization of long term funds.

Profitiability Ratios : The objective of every business, whether in the private sector or in the public sector, is to earn sufficient profits or surplus, in order to survive in a lean period, to provide, for expansion and growth, and to make its contributions to welfare of the society. It is, therefore, imperative to evaluate efficiency of a company in terms of profits. For this, two profitability ratios are generally used ; (1) Profitability in relation to sales, and (2) Profitability in relation to Investment. Gross Profit Margin= (Sales−Cost of Goods Sold)÷Sales×100.

Gross Profit Margin reflects the efficiency with which management produces each unit of saleable products. It may increase due to one or more of the following factors :

(1) Higher Sales price, cost of goods sold remaining constant.

(2) Lower cost of goods sold, sales price remaining constant.

(3) A combination of variations in sales price and costs, with the margin widening.

(4) An increase in the proportion of higher margin items.

A decrease will point the other way.

Net Profit Margin Ratio : It is measured by dividing net profit after tax by sales.

This ratio established a relationship between net profit and sales and measures management's efficiency in manufacturing, administering and selling its products or service. It is an overall measure of the firm's ability to turn each rupee of sales into profit.

Operating Ratio : It is computed by dividing all operating expenses by sales.

A higher operating ratio is unfavourable as it means a small margin to meet payments of interest, dividends etc. A careful study of the factors which

cause veriations in the operating ratio would reveal the factors responsible for higher expenses and enable the management to take appropriate measures to control them.

Return on Investment (ROI) : Profitability of a firm is also measured in relation to investment. The term investment may refer to total assets or capital employed. The important ratios used for this are : (1) Return on Assets (ROA), (2) Return on capital employed and (3) Return on Shareholders' Equity.

Return on Assets Ratio (ROA)=Net Profit after taxes ÷ Total Assets.

This ratio is a useful measure of profitability of all resources invested in the assets of the firm.

Return on Capital Employed: This ratio which is one of the most important for measuring operating results, is calculated by dividing net profit after taxes by capital employed. (Return on Capital Employed=Net Profit after taxes÷capital employed, that is long term debts and Share holders' equity). It measures how well the management has used the funds supplied by creditors and owners ; the higher the ratio, the more efficient is the firm in using the funds.

Budgets

This technique will be discussed later on, in this Study Note, as a significant aid to control.

Measurement and Control through Morale :

The third area of control is performance of people in the organisation through morale. Morale has been defined as 'The subjective attitude of employees towards the management, its objectives, goals, policies & practices, and towards their work'. The morale of a group of workers is said to be high when the group shows an attitude of satisfaction with, desire to continue in, and willingness to strive for, the goals of the group. It is claimed that high morale leads to higher productivity and helps survival and prosperity of the organisation in the long run. On the other hand, low or poor morale can lead employees to resort to go-slow, work-to-rule practices, or even strikes, which could undermine productivity. A high morale is usally taken as an index of satisfactory overall performance of the people and the organisation.

The problem involves stimulating a feeling of togetherness, of a sense of identification with one's job, working conditions, fellow workers, supervisors and the company, which is conducive to the achievement of company goals. Two main factors which affect morale of of employees, are : (1) History of management employee relations, and (2) Seope for employees to influence management decisions which affect them.

History of Management-Employee Relations : Influences the state of morale at any time, and also conditions both the speed and the direction of employees' reactions to various events. For exemple, when morale has been high for some time, adverse developments will depress it slowly ; on the other hand, if morale has been at a low ebb for a long time, even dramatic attempts to relieve unsatisfactory conditions may produce little reaction for months.

Ability to Influence Management Decisions : The feeling of employees as regards their ability to influence management decisions that affect them, rather than any specific decision in itself, affects their morale. A decision to grant a pay increase, for exemple, may not have more than a softening affect if workers feel that future grievances will not be taken serinusly by management without a prolonged struggle. On the other hand, a prompt response to employees grievances may help to sustain employee morale, even if management decides, after investigation, not to agree to an immediate pay increase

The two factors which affect employees' morale are, to some extent, within the control of management

However, there may be issues on which sharp difference of opinion might occur, leading to serious disputes between management and employees. These will have an adverse effect on employees morale ; and, if such a dispute is settled in an arbitrary manner on mangagerial prerogative, in may seriously damage employee morale. If, however, management sets up an impartial grivance machinery, refers all disputes to it and abides by its decisions, it will succeed in raising employees' morale, and in maintaining it at a high level for a time.

Measurement of Morale : The more difficult problem about morale is its measurement, for this is essentially a matter of subjective feeling and concerned with a group rather than an individual Social scientists, however, developed the technique of Attitude Survey to measure, not the morale itself, but relative level of morale

Attitude Survey : There are different techniques for measuring attitude of employees about a particular subject or about the management in general. These are : (1) Interview with printed questionaire, (2) Guided or unguided interview, (3) Disguised, non-structured interview and (4) Projective techniques. Using one or more of these techniques, an expert conducts an initial survey to find how employees feel about a particular subject, for example, promotion policy, welfare facilities, suggestion scheme etc. An intensive communication programme is then launched to improve the knowledge, opinion and the attitude of employees about that subject Another survey is then conducted to find out the degree of change which has been brought about the subject matter, as a result of the communication campaign.

Those who have conducted a large number of attitude surveys claim that it has been possible to assess. with some degree of accuracy, the level of employee satisfaction and morale. Through comparison of various plants, departments, occupational and other groups, a management gets to know as to which department, secsion or a group within the organisation has a lower morale comparated to other departments, sections or groups.

Attitude Survess also reveal the factors which have a particular significance as incentives and as determinants of employee satisfaction and morale within its organisation.

They also provide a rough measure of the relative importance attached by employees to different aspects of the work-situation and of work relationships.

Armed with such valuable information about the factors which influece attitude of employees, as well as relative importance of these factors from the view point of employee, a management can take appropriate measures to raise the level of the morale of its employees and to maintain it at that level for a time Thus, employee morale may serve as a reliable index of overall performance of the management in the long run

Human Implications of Controls : In general, people dislike controls, resent them and occassionally even try to manipulate records of performance to confuse or mislead the controllers, that is, the boss, the inspector, the accountant, the auditor, as the case may be But if a company is to achieve its planned objectives, goals, standards, it is essential that controls operate, are accepted and are acted upon. This makes it necessary to understand why controls are resented and what can be done to make them acceptable.

Why Employees Resent Controls : Social scientists and practising managers who have observed employees at work, have been able to identify some causes of employees' resentment against controls : These include :

Failure to accept Objectives : One reason why workers may not like a control is that they have no genuine interest in accomplishing the objective behind the control A worker may not just care about reducing waste because he thinks the company is rich ; a salesman may not care to push a new line of low priced products because he feels they are junk. On the other hand, if a worker accepts a given objective as worth-while, he may accept the necessary control. Multiplicity of objectives may introduce further complications : If there are many objectives, some are likely to be vague and some incompatible with one another. In such a situation, if controls are placed only on some aspects of a job even acceptance of these objectives may leave an employee with a feeling of uneasiness about the uncontrolled aspects. He will then blame the controls for this feeling.

Standards set are unreasonable : Another reason for dislike of control may be the feeling that standards set are unreasonably high For example, if an operator feels that the standardss of quality prescribed is too high and cannot be attained, or that is the really not necessary, he will resent the relevant control.

Too many controls : Most employees generally expect and even welcome some control over their activities, but as more and more aspect of their work are subjected to controls, they begin to get a feeling of being pressed on all sides, of being suffocated, of being deprived of freedom. In short, with too many controls, even those few which were accepted before come to be resented and resisted

Arbitrary exercise of control : It has been suggested that employees do not really resent control perse (by itself ; they may resent it because of arbitrary manner in which control is often exercised. A manager may have a prejudice against a particular subordinate, or he may not have full information about his performance and yet he may criticise him for unsatisfactory performance, or he may hold a subordinate responsible for failure even though the failure may have been due to factors beyond his control. In such cases, it is the arbitrary manner of exercise of control that creates a sense of injustice and, therefore resentment, against control.

Pressures of Informal Groups : It was pointed out (Ref : Study Note No. 6), that informal groups develop spontaneously within a formal organisation, and such groups exercise considerable influence on attitude, behaviour and actions of individual members. These groups often directly oppose standards set by management and put sever, pressure on any operator who sides with management in this regard. On the other hand, there are instances, especially among managerial personnel, of social groups supporting the controls. Between the two extremes of direct opposition and strong support there are many shades of group attitude

In effect. group attitudes towards control are neither predictable nor permanent They arise out of past experience of members of a group, especially informal leaders These individual experiences are influenced by such factors as acceptance of objectives, reasonableness of standence in the integrity of management as regards measurement of performance and attitude about legitimacy of controls. This means that a manager can, with conscious and deliberate efforts, influence favourably the attitude of groups towards controls.

Measures to make control Acceptable : Since a manager has to achieve planned objectives, goals, standards, through people, he has to exercise control whether subordinates like it or not. If, however, a manager can reduce the

negative attitude of subordinates to control and develop a positive response from them, he will achieve much better results.

Making Objectives, Goals and Standards Acceptable : If a management can convince its employees that its goals are worthwhile and their accomplishment will satisfy personal and group goals, and that standards set are attainable and fair, employees will accept relevant controls To ensure this, management should invite subordinates in the establishment of goals and standards. Acceptance and use of the technique of Management by Objectives (MBO) will go a long way in persuading employees to accomplish the goals, in the formulation of which they have taken part, and meet the standards they have agreed to As a result, control will cease to be irritating.

Not Too Many Controls : It is well-known that workers do not like that they and their work should be supervised and controlled in detail and at all times. This build up resistance in their minds to control ; and yet, it is important that everybody should known that this work will be checked and measured. This requires that there should be controls, but not great many of them. Use may be made of the principle of Management by Exeception, according to which, so long as performance is proceeding according to plan, no control need be exercised Further though control has to be continuous, it should be as far as practicable, inconspicuous and remote.

Fact Control and not Person Control : When deviations in performance occur, managers generally tend to hold some particular person responsible for such deviations, In fact, however, it is often some external forces, and not individuals' who may be responsible for deviations ; such individuals will, therefore, naturally resent against the manager in which control has been exercised. It is, therefore, suggested that a manager should primarily try to discover what and not, necessarily, who is responsible for the deviations ; this will then not only create any resentment but will secure the co-operation of the person concerned in the search for causes of deviations.

Another aspect of arbitrary exercise of control is when only a particular subordinate is picked up for a lapse while others who may be guilty of the same, are allowed to go free. This discriminatory, subjective and arbitrary exercise of control is bound to be resented not only by the victim but also by his sympathisers. It is therefore, the duty of a manager to exercise control only on the basis of facts, without any prejudice or bias.

Flexible Control :. Subordinates may resent control because they do not make an allowance for unanticipated or unexpected developments which come in the way of meeting standards. They, therefore, plead for some flexibility. There is however, a danger that flexibility may be used as an excuse every time to evade control. And yet, it must be remembered that if

people feel that standards of performance do not take adequate account of such factors, they would regard the standards as unreasonable and resent measuras to control them. The problem, therefore, is how to introduce flexibility and still keep controls useful as a management tool.

One way of introducing flexibility into a control system, while maintaining its integrity, is to make the adjustment automatic. Flexible budgeting, for example, provide a shifting standard as volume of work changes ; another example of flexibility is linking sales quotas to general business activity or to current activity in particular industries or localities.

Support of Informal Groups : As has been stated earlier, informal groups develop spontaneously in every formal organisation and are led by informal leaders. It has often been complained that these informal leaders occasionally decide to restrict output, and bring various pressures on their members to evade managerial controls set up to secure standard output. One way to counteract this practice is to identify informal leaders and establish friendly relations with them. A Manager then could discuss with them not only problems of workers at work, but also frankly discuss his problems with them and seek their co-operation. In this way, he could try to persuade the informal leaders and their groups to work with him on as many problems as possible, rather than leave them to work against him.

III
CONTROL AIDS

It is important to note that control being one a the elements of the management process, its effectiveness will depend on the soundness of the other elements of the process. The elements of planning, organizing, staffing and directing are, in the final analysis, the means by which managers ensure that activity is moving along predetermind lines, with minimum deviation, that action towards ensuring results is as has been visualised, and that results, in fact, measure up to the desired standards. It would. therefore, be useful to study how control aids, such as i) Good organisation Structure, (ii) Unity of objectives. (iii) Unity of Policies, Procedures and Meth ds, (iv) Budgets can facilitate effective control.

Good Organisation Structure : It is generally true that good people can make any organisation pattern work. However, there can be no doubt that good people and those who want to co operate, will work together still more effectively, if they know precisely the part they are to play in any collaborative endeavour, and how their rolese relate to one another. To design and maintain a healthly system of roles and relationship is basically the function or organising.

For an organisation role to exist and to be meaningful to the members of the organisation, it must incorporate (i) verifiable objectives which are the task of planning ; (ii) a clear concept of major duties or activities involved ; and (iii) an understood area of discretion or authority so that the person filling the role knows what he can do to accomplish results. Organising, is, thus, grouping of activities necessary to attain objectives, assignment of each group to a manager with authority necessary to supervise it, and the provision for co-ordination, horizontal and vertical, in the enterprise structure. It the top management while setting up an organisation structure, keeps in mind important principles of organisation, employees would know who is to do what and when, and who is responsible for what results. It would also remove obstacles to performance caused by confusion and uncertainty of assignment. In short, a sound organisation structure will help to make any co-operative endeavour more productive and, in an ideal setting, this would mean that there would be need to exercise control as activities are carried on according to plan.

In reality, however, there is acute need for control, as human organisations, by their very nature, are falliable systems. They are operated by ordinary mortals in a complex, changing and uncertain environment-both external and internal Objectives and goals are determined, plans, policies, procedures and methods are formulated, the system is filled with manpower

materials and equipment, and activated ; and yet, a group may not achieve the goals. On the contrary, left to itself, group endeavour may be wayward, inefficient, ineffective and may even break down. Without a system of control, objectives may get lost in more activity, means may be mistaken for ends and resources may be misdirected and even wasted. To counteract these tendencies conscious direction and integration of effort are imperative to accomplish organisational objectives. Thus, organising and control may be said to have the same object, namely to make a system operate along predetermined lines, with least deviations. In this sense, a sound organisation structure may be said to make it easy for a manager to make control more effective than it would be in its absence.

Unity of objectives : Traditionally, executives, in the past, belived that the objective of business was maximum profit and assumed that all employees—managers and others-would unquestionably accept it, and would extend full co-operation in achieving it. They, therefore, did not think it necessary to explain to them, and still less to convince them, that achievement of the company objective, would also make it possible to satisfy their personal objectives and goals. Gradually, however, they began to suspect that employees not only did not accept the management objective of profit, but felt that it often went against their own goals ; and when they felt this strongly they resorted to such practices as go-slow, work-to rule, and restricted out-put, or even went on a strike and stopped work Control mechanisms failed to operate, This meant heavy losses to the management, to the employees, to the consumers and to the society as a whole. Peter Drucker pointed out that if these losses are to be avoided, managements should try to secure co-operation of managers and employees in determining the goals and standards to be achieved, and in making controls meaningful For this, he suggested the philosophy and technique of Management by Objectives for establishing the identity or the congruence, or the unity between objectives of the management and those of the employees. (ref. Study Note 2)

Unity of Policies as Aid to Control : As indicated in Study Note 2, policies of an enterprise are formulated by the top management and they provide the necessary guidenlines to the operating managers in taking appropriate decisions in their functional areas. Major policies give a unified direction to an entire enterprise, but there would be of course, separate sets of policies in different areas such as marketing, development of new products, financial resources, human resources, capital facilities etc.

To the extent to which major policies of an enterprise are consistent with each other, to that extent, the task of controlling authority will be made easy. Only, if there are variations between goals and performance, it will

examine as to what extent inconsistent policies are responsible, and then suggest necessary modifications to remove those inconsistencies

Procedures Aid to Control: General policies like personnel, financial, public relations are appliicable to the organisation as a whole, and are therefore, useful for control of total performance. Procedures, on the other hand, are meant to guide activities within Department, for example, purchase procedure for the purchase department. A proeedure is particularly useful for control purposes when measurement of results of an executive decision is difficult; for example, if a purchase executive is required to follow strictly the purchase procedure laid down before he makes his decision to place an order with a particular supplier, a control authority has then only to see whether the prescribed procedure is being systematically followed or not.

BUDGETS AND BUDGETARY CONTROL

One of the most important instruments of control is through budgets. A budget is a comprehensive and co-ordinated plan, expressed in financial or. future period. It is also referred to as a profit plan, as it explicitly states the goals in terms of time expections and expected financial results for each major segment of an enterprise. A budget has been definedes a financial and/or a quantitative statement, prepared and approved prior to a definite period of time of the policy to be pursued during that period for the purpose of attaining a given objective.

Budgeting : A carefully prepared budget is the best possible standard against which to compare actual performance, because it incorporates the estimated effects of all variables that were foreseen when the budget was being prepared. A comparison of actual performance with budget performance shows "red light" that is, it directs attention to areas where corrective action is needed. Budgetary control may be stated to be the establishment of objectives relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actuals with budgeted results, either to secure by individual action the objectives of that policy, or provide a basis for its revision To secure full benefits of budgetary control, comprehensive budgeting, that is, budgeting which covers all operations of an enterprise is essential.

Types of Budgets ; A sound budgeting control system must include a master budget, composed of the separate budgets of its component parts ; major constituents of a master budget are :

1. Statement of Estimated Income and Expense
2. Statement of Estimated Financial Condition
3. Statement of Estimated Cash Receipts and Disbursement.

These are usually suported, in a manufacturing company, by systematic and detailed budgets, such as following :

1. Profit Budget
2. Sales Budget
3. Production Budget
4. Material or Inventory Budget
5. Purchase Budget
6. Labour and Personnel Budgets
7. Manufacturing Expense Budget
8. Maintenance and Repairs Budgets
9. Administrative and General Expense Budget

10. Selling and Distribution Expense Budgets
11. Advertising and Sales Promotion Budgets
12. Public Relations Budget
13. Research and Development Budget
14. Other Income and Expense Budget
15. Capital Expenditure Budget
16. Plant Utilisation Budget
17. Cash Budget.

Budgetary Control: The process of budgetary control involves the following steps:

1. Realistic plans are prepared and goal are set in respect of approved business operations.
2. Actual performance for each area of responsibility is measured in financial and physical terms.
3. Actual performance is compared with the budgeted standard to identify significant variances.
4. Reports are prepared to inform management about the variances.
5. Corrective action is initiated by appropriate authorities to ensure that future performance is as near as possible to the budgeted standard.
6. In extreme cases, modification of budgets, if exigencies so demand.

Advantages of Budgets and Budgetary Control: Budgeting constitutes an aid to planning. A budget requires planning and is also, in itself, an instrument of planning. Forecasting or projecting a future course of action implied in budgeting, is essentially a planning process. Comprehensive budgeting forces the management to develop a network of objcatives, policies and plans for all phases of operations of an enterprise.

Budgeting also acts as a means of co-ordinating the various activities of a business. For example, production budget has to be related to sales budget, which in turn, has to take into account the existing production capacity. In fact, every aspect of preparing budgets forces co ordination; and the process of integrating various budgets into a master budget also highlights the importance of co-ordination implied in budgeting.

The most widely known use of budgeting is for control purposes. Budgeting compels a management to lay down objectives and goals in numerical terms and thus provides with yard sticks for measurement of performance. Budget reports points out the deviations and suggest corrective actions.

A budget throws light on the programme of profit. For a long time, profit was traditionally pictured as, P (Profit) = S (Sales) – C (Costs). Today, however, budgeting helps to draw the attention of all managers that profit is

the primary aim of a business and, therefore, out of sales proceeds the desired profit must be set aside and the balance should be regarded as allowable costs, that is S—P=C. This is why a budget is often called a profit plan. Further, a budget emphasises that a management, which desires to be assured of a definite profit, must control its costs.

Budgeting teaches all executives to think in terms of money and makes them aware of monetary implications of their proposals and actions. For example, if a store controller suggests an increase in inventory he immediately becomes aware, through the budget, that more capital will be required, which will mean greater interest burden, more space for storage and more incidental expenses. Again, if a production manager asks for a new machine to replace an old one, he will immediately realise that his request will be considered only if he is able to show that over all economies of the new machine justifies the project, in all its aspects.

Budgeting acts as an incentive for self analysis. Every enterprise in existence for a number of years acquires set of habits some of which might be a source of waste. Just as a ship, after a number of voyages has to be docked, for her to be generally overhauled and repaired for further service, so every enterprise has to be docked occasionally. Every branch of activity must be critically examined and analysed, which would enable the organisation to rid itself of undesirable habits and to run smoothly. Budgeting, in short, provides opportunities for regular overhaul of the whole organisation.

Finally, budgeting will induce executives to avoid all avoidable wastes wherever possible.

Flexible Budgeting : A crucial aspect of budgetary control is the comparison of actual performance based on actual level of activity with budgeted performance on budgeted level of activity. However, the deviations will not be meaningful if the actual level of activity differs from planned level of activity. To measure the variance correctly, actual performance should be compared with budgeted performance for actual level of activity. This necessitates a need for flexibility within the budgeting system : it should be able to allow for changing conditions. Planned level of activity may be difficult to achieve because of changing conditions.

A fixed or static budget may be used to measure variance if there is not much difference between actual level and planned level of activity. Budgets prepared for a single level of activity, with no basis for modifying them for changed circumstances, are Fixed or Static Budgets. When there is a significant difference between actual level and the planned level of activity, it is in appropriate to use a budget based on the planned level of activity for evaluation of performance. In such a situation, a performance budget is

prepared to show what resources and costs should have been necessary at the actual level of activity. For example, if a firm was expected to produce 10,000 units during a given period but could produce only 9000 units, the budget based on 10,000 units would not be a meaningful standard of measurement. A performance budget showing revenues and costs that should have been incurred at 9000 units, would be more appropriate for appraising performance. (On the other hand, it may be essential to probe why only 9000 units were produced but that is a slightly different issue).

The performance budget is prepored from a flexible budget. A flexible budget is a series of fixed budgets that provide for estimates of re-venuess and costs at different levels of operating activity, in a budget period.

Zero-base Budgeting :

According to this technique, enterprise programmes are divided into "packages", comprised of goals, activitiet and resourses needed and costs are calculated for each package", from scratch. By starting each programme from base zero, costs are calculated afresh, thus avoiding the tendency in budgeting to look only for changes from a previous period.

A great advantage of this budget technique is the fact that it forces managers to plan each programme package afresh ; as they do, programmes and their costs are received in their entirety, along with newer programmes and their costs.

BUDGETARY CONTROL

Fixed Budget, variable Budget ana Zero-basc Budget :

A budget is a formal financial statement of expenditures, revenues, and profits planned for a specific future period, usually a period of one year. This budget is also known as the normal budget or the fixed Budget. It is called a fixed budget because, it lays down fixed standards of costs and revenues for all the activities included in the budget. Operating managers are responsible for any variations in costs or revenues.

One complaint of the operating managers against the traditional budgets is that they are often inflexible. They point out that if variations occur in actual performance even due to the forces beyond their control, they would be held responsible, and this is unfair to them

Variable Budgets: While fixed budgets express what individual costs should be at one specified volume, variable budgets are cost schedules that show how each cost shall vary as the level of activity or output varies. As a result, if selling expenses for a year exceeded the budgeted expenses, the sales manager need not be blamed if the sales also have increased proportionally. In this way, the variable budget provides an element of flexibility which is not there in the fixed budget.

Zero-base Budget (ZBB): This concept has been developed very recently. In the normal budgeting process, the previous year's levels of expenditure for all heads in the budget are assumed to have been appropriate. The task of the person in charge of budgeting is to decide which activities and funds should be added. Such a process builds into an organisation a bias towards continuation of the same activities year after year, well after their relevance and usefulness have been lost because of environmental changes or changes in the organisation's objectives.

Zero-Base Budgeting, in contrast, requires the management to look at its activities afresh. The previous year's resource allocations are not automatically considered as the basis of this year's allocation. Instead, each manager has to justify his budget proposals. The top management examines each proposal on the basis of cost benefit analysis before including it in the master budget.

Zero-Bas Budgeting involves the following three major steps :

1. Breaking down organisation's activities into "Decision Packages". Each package includes all the information about an activity that managers need to evaluate that activity and compare its costs and benefits to other activities plus the consequences expected if the activity is not approved and the alternative activities that are available to meet the same purpose.

2. Evaluating the various packages and ranking them in order of decreasing benefits to the organisation.

3. Budgeting the resources according to the ranking approved by the top management.

Benefits

Managers are required to quantify each alternative and thereby provide the measures needed for comparisons. Second, low priority

programmes can be eliminated or cut off with greater justification. Third, alternative programmes and their advantages can be periodically reviewed.

Disadvantage :

There is only one major disadvantage, and that is, it envolves a great amount of paper work for managers.

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Distinguish between the Traditional and the Modern Views about control
2. Describe briefly the essential steps in the procedure for control, giving suitable examples wherever necessary.
3. Describe briefly the technique of PERT and explain how it helps ensure effective control of production.
4. Define budgetary control and discuss its advantages.
5. Write notes on the following :

   (a) Strategic Points for control, (b) Types of Corrective Action,
   (c) Flexible Budgeting, (d) Financial Ratios,
   (e) Morale and its Measurement.
6. Outline a scheme of Ratio analysis, for overall company appraisal, with particular reference to the following :

   (i) Appraisal of liquidity. (ii) Appraisal of profitability.
7. Show your familiarity with the following concepts and their apelication as instruments of control :

   (i) Zero-base budgeting, (ii) ABC analysis.
8. Discuss critically why employees generally resent control ; and, indicate measures to make control acceptable.
9. Discuss fully why business organisations need control.
10. Outline the saillent features of an effective Control Scheme.

STUDY NOTE : VIII

EVOLUTION OF THE PUBLIC SECTOR IN INDIA

Evolution of the public sector in India is comparatively recent one, Unlike in Western countries like the U.K. France Germany, Sweden and Italy, it started in India, only after Independence Prior to 1947 there was virtually no public sector in the Indian economy. Some instances worthy of mention were (a) Railways (b) Post and Telegraph Department (c) All India Radio. (d) Port Trusts. (e) Reserve Bank of India (f) and Ordnance and Air Craft Factories This was, of course due to historical reasons and there were hardly any national, economic or social objectives behind the establishment of these undertakings.

The source of inspiration for the establishment of the public sector in the country may be traced to the Directive Principles of state policy enshrined in our Consitution apopted on January 26 1950. These principles laid down that the state shall so direct its policy that (a) ownership and control of the material resources of the community are distributed to subserve the common good. and (b the operation of the economic system shall not result in the concertraion of wealth and means of production to the common detriment.

Earlier, the Government of India had enunciated, in their famous Industrial Policy statement of 1948 the respective roles of the state and the private enterprise. "A dynamic national policy must be directed to a continuous increase in production by all possible means side by side with measures to secure its equitable distribution". The problem of State participation in industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. Accordingly industrial field was divided into three groups ; (a) strategic Industries which should be the exclusive monopoly of the state for example manufacture of arms and amunition atomic energy, and railway transport ; it also provided that, in any emergency, the government could take over any other industry considered vital for national defence

(b) Key industries like coal, iron and steel, air-craft manufacture, ship building, manufacture of telegraph, telephone and wire less apparatus, and mineral oils ; where existing, private concerns would be allowed to operate for the next ten years, subject to the inherent right of the state to acquire any of them in public interest, and to estashlish new undertakings in this field ; and

(c) remaining industries, where private enterprise would be allowed to operate, subject to such government control and regulation as would be considered necessary.

Industrial Policy of 1956 : The next landmark in the evolution of the public sector was the announcement of the Industrial Policy Resolution of 1956. It meant a revision of the earlier policy because of certain important developments which had taken place since 1948. First the Constitution of India was enacted, guaranting certain Fundamental Rights to every citizen and enunciating the Directive principles of the State Policy. Secondly, the Parliament accepted the Socialist Pattern of Society as the objective of social and economic policies of the Government. Thirdly. the second Five Yerr Plan, which accorded a high priority to industrialisation and specially the development of the basic and heavy industries, was to be placed before the country. In order to realise the socialist pattern of society, accelerate rate of economic growth, develop heavy machine industry, and speed up industrialisation, it was essential to expand the Public Sector Expansion of the Public Sectlor was also necessary for providing increasing employment, for improving standards of living of the masses, for reducing disparities in income and wealth, and for preventing private monopoly and concentration of economic power.

The Industrial olicy Resolution of 1956, stated, *inter alia,* that "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance should be in the public sector. Other industries which are essential and require investment on a large scale which only the state can provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wide area". The resolution also stated that the state will progressively accept a predominent and direct responsibility for setting up new industrial under-takings and for the development of transport and infra-structure facilities. The State will also undertake trading on an increasing scale. The Resolution also laid emphasis on the role of the private sector in the planned national development.

Revised Classification of Industries : Accordinng to this Resolution, industries were classified into the following three categories :

1. *Industries under the Exclusive State Monopoly* :

This includes seventeen basic and strategic industries, future development of which is the exclusive responsibiilty of the State. They are (1) Arms, Ammunition and allied items for defence equipment, (2) Atomic Energy, (3) Iron and Steel, (4) Heavy castings and foregoing of iron and steel, (5) Heavy plant and Machinery, (6) Heavy Electrical Plant, Hydraulic and Steam turbines, (7) Coal and Lignite, (8) Mineral Oils, (9) Mining of iron ore, manoganese ore, chrome ore, gypsum, sulphur, gold and diamonds, (10) Mining

and Processing of copper, lead, zinc and wolfram, (11) Minerals specified in the Schedule to the atomic energy, (12) Air-Craft, (13) Air Transport, (1) Railway Transport, (15) Ship building, (16) Telephones and telephone cables. telegraph and wireless apparatus, (17) Generation and distribution of electricity.

II *Progressively State-owned Industries* :

This category includes twelve industries in which both public and private enterprise will exist side by side but which will be progressively state-owned and in which the state will take initiative in establishing new units. These industries include (1) All other minerals except the "minor minerals," (2 Aluminium and other non ferrous metals, (3 Machine Tools, (4) Ferro-alloys and Tool Steels, (5) Basic and intermediate products required by chemical industries such as the manufacture of drugs, dye-stuffs and plastics, (6) Anti biotic and such essential drugs, 7) Fertilisers, (8) Synthetic Rubber (9) Carbonisation of coal, (10) Chemical Pulp, (11) Road Transport, and (12) Sea Transport.

III. *The Mixed Sector with Primary Rale for the Private Sector* :

This category includes all industries except the twenty nine industries listed above. The development of these industries has been left to the initiative and enterprise of the private sector, though the state has the right to set up any undertaking in this field also.

Licensing Policy of 1970 : According to this policy, industries were divided into the following six categories.

1) *Core Sector* : This included basic, critical and strategic industries involving heavy investment over Rs 5 crores. It included 17 basic industries specified in the Schedule A of the Industrial Policy Resolution of 1956, as well as new 9 industries—fertilizers, tractors, insecticides, newsprint, petrolium products etc. New units in these 9 industries could be established in the public sector or in the private sector by large industrial houses (with assets of Rs. 20 crores or more) or by foreign concerns

2) *Middle Sector* : This sector included projects involving investment ranging from Rs. 1 crore to Rs. 5 crores. This was reserved for small and medium enterpreneurs.

3) *Delicensed Sector* : New undertakings or substantial expansion of units requiring investment of Rs. 1 crore or less were exempted from obtaining any licence.

4) *Small Scale Sector* : Industries involving investment of Rs. 10 lakhs were termed as small scale industries. Manufacture of 55 items was reserved for this sector.

5) *Export Industries* : Industries which export a major part of their output and earn substantial amounts of foreign exchange, were included in this. These were given priority in the matter of issue of licences and other facilities.

6) *Joint Sector* : The Licensing Policy authorised public financial institutions to convert their loans partly or wholly into equity. This would enable them to have a greater degree of participation in management, particularly at policy level, in major projects involving substantial financial assistance from them.

This policy led to substantial expansion in the scope of the public sector. It empowered the public sector to take up short gestation projects yielding quick returns, to cover major production gaps in the economy.

Licensing Policy of 1973 : *Scope of Public Sector further expanded* :

The new licensing policy modified the earlier policy of 1970. It allowed for further expansion in the scope for the public sector. It laid down that "In the context of the approach to the Fifth Plan, the State will have to take direct responsibility for the further development of industries over a wide field in order to promote the cardinal objectives of growth, social justice, self reliance and satisfaction of the basic minimum needs". As a result, the scope of the Core Sector was further expanded. In addition to the 17 basic and strategic industries, 19 more industries were added to it. New units in these industries could be set up by the Government in the public sector or by big houses or by foreign concerns

Growth of the Public Sector : After Independence, the Government decided to assume direct responsibility for development of industries over a wide area, and to implement its plan of a socialist pattern of society. The Government believed that private enterprise would find it difficult to raise the necessary financial resources for a large number of giant projects which would need huge investments and involve long gestation periods. It also believed that national socio-economic goals-a rate of growth, higher national and per capita incomes, a reduction in inequality of incomes, a check to the concentration of income and wealth in the hands of a few big families, development of backward areas, employment to the increasing number of job-seekers-could be achieved only through a planned growth of the Public Sector. For the attainment of these goals, the public sector was assigned progressively important role in the Five Year Plans.

Public Sector in Pre-Independence Period : The birth of the public sector in India took place during the third and the fourth decades of the nineteenth century. In its early days, governmental enterprise concerned itself with the establishment of the Railways and Post and Telegraphic Communication, mainly for the purpose of expansion and consolidation of British Rule

in India. (For the rest of industrial development, it was left to private enterprise, mainly through firms, organised and controlled from Britain, as could subserve economic interests of their home economy).

Even after the turn of the century, the government continued to take interest only in communication and so it entered the era of broadcasting by setting India's first All India Radio Broadcasting Station, in Madras in 1924. Other pre independence period landmarks in the public sector included nationalisation of the privately owned Hindustan Aircraft Company as a part of the war effort, nationalisation of the telephone systems of calcutta, Madras and Bombay, nationalisation of railways and nationalisation of the overseas telecommunication service.

Post-Independence Period: The first year of Independence marked a surge forward in the public enterprise. The Government announced its Industrial Policy and declared its intention of going into public enterprise in a big way In 1948, first step and significant in the days to come, was the establishment of the Automic Energy Commission. Then were set up, in the same year, Damodar Valley Corporation, Indian Telephone Industries and the Industrial Finance Corporation.

Since 1951, when the first Five Year Plan was launched and through the successive Five Year Plans, there has been an increasing investment in public enterprises

Nationalisation of Banking: The Reserve Bank was nationalised in Later, the Imperial Bank was nationalised and in its place the State Bank of India was set up in 1955. In 1969, the fourteen principal commercial banks were nationalised. As a result, the government is now in command of the whole of the Indian Banking system, with the exception of the foreign banks operating in the country and a few Indian Banks in the private sector.

Life and General Insurance: Life insurance was nationalised in 1956 and a large number of insurance companies were absorbed in the Life Insurance Corporation. Subsequently, general insurance was also nationalised in 1971. As a result, considerable funds are now available to the Government for investment in socially useful projects.

Foreign Trade: State Trading Corporation was set up in 1956 to undertake import and distribution of selected items on behalf of the Government; Minerals and Metal Trading Corporation, as well as the Indian Motion Pictures Export Corporation were established in 1963.

Take over of Private Firms: This was started as a scheme to take over some 'sick' mills, mainly cotton mills, in order to prevent unemployment for those working in such mills and also to modernise them and to improve their working. Later, it developed into the taking over, mainly through negotiation, a number of well-known engineering companies, such as Jessops,

Richardson and Cruddas, Balmer Lawrie, Burn and Co., Braith-Waite and Co., Indian Standard Wagon Co., and the Indian Iron and Steel Company.

Coal : The cooking coal industry was nationalised in 1972 and all the other coal mines were nationalised in 1973

Oil : The oil industry has been progressively taken over from the foreign oil firms operating in India by the process of negotiation. Thereafter substantial amounts have been allotted to Oil and Natural Gas commission for prospecting and refining of petrolium with a view to reducing dependence on imports as far as possible.

Why Public Sector ?

Quantitative efficiency of the Private Sector has not been seriously questioned ; what are not so generally accepted are the qualitative (motive and direction) aspects of private sector management. Some of the more important purposes behind the setting up of the public sector, include the following :

(1) To manufacture articles of strategic importance as for example, manufacture of air-craft, defence equipment, exploitation of uranium deposists etc.

(2) To supplliment the effort of the private enterprise for the sake of rapid economic development ; this applies particularly to industries which require huge initial investment, have long gestation periods and involve great risk, as in the case of steel plants, multipurpose river valley projects, heavy machines etc.

(3) To provide infra-structural facilities such as electricity, transport, communication etc. which are indispensible for rapid industrial development.

(4) To manufacture essential consumer goods especially vital drugs and services like gas, electricity, for the common man.

(5) To mobilise huge financial resources, as in banks and insurance business, and to use a part of these for social purposes such as housing and drinking water facilities in rural areas.

(6) To take over uneconomic or risk units with a view to avoiding unemployment for those who are employed in such units.

(7) To enable the public sector to occupy the commanding heights in the economy, and channelise reasources for a rapid and self-sustained growth in order to raise the standard of living of the masses.

Concepts of Autonomy and Accountability :

These two concepts are important in the management of public enterprises e g. Autonomy and Public Accountability.

Autonomy suggests, in particular, three principles.

(i) Freedom from red tape ; this means quick decisions with minimum of formalities ;

(ii) Freedom from treasury control ; this means self-contained and self-generating finance and latitude for incurring necessary capital expenditure ;

(iii) Freedom from political dictation ; it implies maximum operational freedom, within the units character and framework of board policy ; and also freedom from enlargement in the political fabric of the country.

Accountability (to the public) suggests that a public enterprise has to fulfil is basic objective of serving interests of the people. The nation as, equity shareholder, should be able to pull its strings through various devices of Parliamentary and Ministerial control.

The concepts appear to be contradictory. Dilemma occurs an account of the insistence of maximum flexibility and also maximum accountability.

Managements' problem is to bring about a workable and harmonious compromise between these extremes.

Review of Performance of the Public Sector Enterprises :

Mr. Narendra Minocha and Dilip Cherian Chalani, after a careful study of the government publications about the performance of the Public Sector - Undertakings in India, have published an exhausteir article in the fortnightly issue, (26-1-19 ,7—8 2-87), of Business India. The following information is reproduced here.

Balance Sheet of 207 Govt undertakings as on 31-3-1985.

y	No. of Companies	Total capital invested	Gross profit	Rate of Return on capital invested
Competing successful companies	51	3,757 Crores	727 Crores	19 36%
Competing Unsuccessful companies	80	8,865 „	156 „	1.77%
Non-competing succeseful companies	38	19,627 „	3,876 „	19.75%
Non-competing unsuccessful companies	38	8,112 „	58 „	0.7 %
	207	42,811 „	4,817 „	

After deducting from the gross profit of Rs. 4,817 crores, the amount for interest on loans and depreciation charges, there was a net loss of Rs 43 crores on capital investment of Rs. 42,811 crores.

Analysis of the casuses of Disappointing performance :

There is a wide-spread feiling in the minds of the top executives of the public sector undertakings, that their survival and promotions depend not on their competence and performance but on the whims and fancies of the Ministers and the Secretaries of the ministries.

Shri T V. Mansukhani, the Chief Executive of H M T Ltd has a reputation as a highly competant manager. When his term of service came to an end, he was not given extension.

On the other hand, Shri Gajendra Singh, a diplomat, was appointed as the Managing Director of the India Drugs & Pharmaceutical, a chronically sick unit, to help him solve his personal problem

BHEL terminated the services of its Head of R & D. However, the Defence Department promptly appointed him as the Head of its R & D Department.

According to Shri Raj K Nigam, "At present, no succession planning is being done, and as a result, there will be a vacuum in the Boards of several enterprises because there will be mass retirement of directors, especially of large companies in the next four years.

Objectives of the Public Sector Enterprises :

According to Shri Kidwai. Secretary General of the Standing Conference on Public Enterprises, "official documents state as many as 28 different objectives, many of them are contradictory and some of them negate the very concept of profitablility".

Autonomy for the Management :

Again, according to Shri. Kidwai, "The Government the owner-has become defacto manager, stifling the initiative of professional managers".

"Ministers have virtually absorbed the public sector enterprises which function as their subordinate offices. They have, therefore, imbribrd the bureaucratic culture."

According to Shri L. K. Jha, "There is too much of fussy overseeing ; managers have to send daily telex messages giying production figures, and some time, this information has to be sent twice daily. According to

Shri Mohamed Fazal, a member of the Planning Commission, "This detailed kind of control has been the negation of the original concept of accountability to the Parliament".

The Bureau of Public Enterprises has issued from time to time, guidelines to the managers of public enterprises, which by now run to 1200 pages ; these guide-lines appear to presume the managers do not have any capacity to use their discretion, even as regard the most insignificant matters. A few such guide lines are reproduced here.

1. The Government has take a policy decision that a Public Sector enterprise should not give Silver Jubilee Awards.

2. It should not purchase Hindustan Contessa cars nor air-conditioned cars.

3. It should observe economy in plan and non-plan expenditure.

4. When a party is organised, per head of expenditure for dinner, lunch, and reception should not exceed Rs. 15/- Rs. 12/- and Rs. 7-50/- respectively

5. It should restrict the use of costly paint to the bearest minimum and should not paint newly built walls. It is not necessary to provide the same scale of fittings for a bath room, door, as to a bed room door.

6. Class room colours in primary schools should be of neutral, pastel shades ; there should be 5-6 urinals for every 200 Students. It would be obvious from the above examples that an average manager conscious of his responsibility for economy, efficiency and final result would have himself adopted these guide-lines. They, therefore, amounted to denying even the minimum autonomy to operating managers is day to day matters.

As regard the measurers that should be adopted to improve the efficiency of the public sector units, they have been already discussed in the Study Notes.

II

FORMS OF ORGANISATION

Historically and through deliberate design, four principal forms of organisation have been distinguished for public enterprises :

A. Government Department ;

B. Autonomous Public Corporations ;

C. Control Boards and

D. Government Companies.

A. *Departmental Organisation and Management :* The principal features of this form are : (1) The enterprise is financed entirely by appropriations from the Government and all its revenues are paid into the Government.

(2) The enterprise is subject to the Budget, accounting and audit controls applicable to other Governmental activities.

(3) The permanent staff of the enterprise consists of civil servants and the methods by which they are recruited and conditions of service under which they work are the same as for other civil servants.

(4) It is organised as a sub-division of a department of the Government. Some examples of departmental undertakings including Railways, Posts and Telegraphs, Chittaranjan Locomotive Works and Integral Coach Factory at Perumber.

Limitations of Departmental Organisation : Critics point out serious limitations and weaknesses :

(1) *Inability to take quick decisions* : The normal procedure for a Government department is that every proposal for decision and action is initiated at the lower level and must go through the higher levels and reach the Secretary of the Department and through him if necessary, to the Minister concerned. If the proposal also concerns any other department, for example Finance Department, if must also get the approval of that department. The final decision will then be taken by the head of the first department and this decision and the necessary action to implement it, will have to go down through the various levels through which the original proposal had come up and will finally reach the person who had to act It is obvious that this procedure takes a long time and so action is invariably delayed. However in business and industry where environmental conditions-economic, political and social-change very fast, quick decisions and actions are essential for the very survival of a business. This, however, is not possible under departmental management.

(2) *Lack of Flexibility and Scope for Initiative* : The rules and procedures for conducting work in a Government Department are clearly laid down in appropriate codes : further, decision and action proposed must have the support of precedents. It, therefore, does not provide for any flexibility

nor any scope for initiative. In business, however, a manager cannot necessarily be bound by precedents ; he has to use his discretion and take appropriate decision and action according to changing conditions.

(3) *Lack of Technical Knowledge and Managerial Abilities* :

A criterion for selection of Civil Sesvants was high academic qualifications. They, however, did not have to possess any technical knowledge about an industry nor any practical experience of managing an industrial undertaking. It was. therefore, feared that such persons would not be able to manage successfully a business enterprise.

(4 *Inability to Plan Future Activities* : A Government department has a life of one year at a time ; it starts operating from the first day of the financial year and ceases on the last day of the year Further, it must end to the Treasury all monies received, and obtain and spend money as sanctioned earlier by the Government Budget ; amounts sanctioned, but not utilised during the year, automatically lapse at the end of this year. A business enterprise, however, has to plan its activities for long terms, e.g. for five to ten years and has to commit its resources for such periods As the Government department cannot do this, it is not suitable to manage a business enterprise.

B *Autonomous Public Corporation* : It was generally recognised that commercial and industrial enterprises cannot be managed efficiently by a Government Department. The Public Corporation has been a common form organisation, for public enterprises, in recent times. It originated form the need to develop an institution which could be clothed with the power of Government, but which would possess the operating flexibility of private enterprise.

Some examples are Damodar valley Corporation, Life Insurance Corporation of India, Air India and Indian Airlines, Oil and Natural Gas Commission etc

Principal Characteristics of the Public Corporation

(1) It is wholly owned by the state ;
(2) It is created by a special Act of the Parliament, defining its objects, powers and privileges and prescribing the form of management and its relationship to the various departments and Ministries of Government.
(3) As a body corporate, it is a separate legal entity and can use and be used, enter into contracts, and acquire property in its own name.
(4) It enjoys financial autonomy. It is usually independently financed, except for its initial capital, and can borrow funds from the Treasury or from the public and can use the revenues derived from the sale of its goods and services.

(5) As a part of its financial autonomy, it is exempted from most of the regulatory and prohibitory laws and procedures applicable to the expenditure of public funds.

(6) Employees of the Corporation, in most cases, are not civil servants, and are recruited and compensated under terms and conditions which the Corporation determines.

(7) The Corporations also frames its own rules and procedures as regards the conduct of its business. These features make the Corporation autonomous in day-to-day administration.

(8) *Motive of Public Service* : A main object of the public Corporation is to efficiently provide a product, or a service, to the community, of better quality and at a reasonable price, and to utilise its surplus for the benefit of the consumer of the society as a whole.

(9) *Accountability to the Parliament* : Though the Public Corporation is granted financial and administrative autonomy, it is accountable to the public for its activities because its capital comes from the public : this is secured through the device of ministerial and Parliamentary control. The Minister is empowered to give general directions, from time to time, on policy matters, which the Corporation is required to carry out. Further, the Parliament through its members and its committees—exercise general control over the Corporation

Management of the Corporation : Like a public limited company, top management of the public corporation is vested in its Board of Directors. There is, however, one important difference, that is, whereas directors of the former are elected by the shareholders, those of the latter are nominated by the Government. The Board may be a Policy Board ; a Functional Board or a Mixed Board.

Policy Board : A policy board consists of a full-time Chairman, a few outside experts as part-time members and a full-time Managing Directors. While the Managing Director is in charge of day-to day administration, the Board provides advice to the Chairman (who is generally the Secretary of the concerned Ministry) as well as to the Managing Director, and also exercises a kind of general supervision.

Advantages of policy Boards : Theoretically, a number of advantages may be claimed in favour of this board. They are :

1) As the board is not involved in day to-day affairs, it can take an impartial and more objective view of the management of the enterprise

2) It makes it possible to associate able, expert, and experienced men from outside as part-time members, and thus to gain the benefit of their expertise and experience,

3) It is possible to give representation to consumers, users and such other interests, affected by the activities of the Corporation.

4) The board, consisting usually of members with experience, can give useful advice as regards short and long term objectives and plans and exercise effective over-all control.

Limitation of the policy Board :

1) As the enterprise grows in size and complexity, the Managing Director is bound to be over-burdened because there is no body else to share responsibility with him. As a result, his efficiency and, therefore, the efficiency of the enterprise may be adversely affected.

2) As the Board has no responsibility for implementing policies and programmes, it is apt to suggest ambitious or unrealistic policies and programmes,

Functional Board : A Functional Board consists predominantly of full time members, each of whom has a clear responsibility for a specific function, such as production, sales, finance, purchase, personnel or research and development. The advantages of the Functional Board are :

1) As each member is an expert in his own functional area, the enterprise can reap the benefits of his specification and so its over-all efficiency could be high.

2) As all operating decisions are made by the board, the functional members are a party to it and so there should not be any difficulty in implementing them.

Limitations of the Functional Board :

1) One obvious limitation is that a Functional Board with a number of functional directors, each with its administrative personnel, is bound to prove highly expensive. However, if such a board can secure higher productivity and greater revenues which can more than compensate the higher expenses, there need not be any objection to such a board.

2) Another limitation is that such a board cannot have part-time members who are outsiders and are experts in some areas of management, or who have varied practical experience of managing business, or who represent particular interests such as consumers, trade unions etc.

This deprives the board of the benefit of expert advice and guidance.

Mixed Board : In view of the limitations of the Policy Board as well as the Functional Board, there is now a definite trend for a Mixed Boards which has a full-time Chairman as well a number of full-time functional directors and a few part-time members from the outside who are experts or

representatives of particular interests. Such a board has the advantages of both the types and yet be free from their limitations.

C. *Control Boards*: Control Board is a special device, adopted in this country, for over-all management of river-valley projects. The idea originated with the problem of Central Government control over the Bhakra Scheme, in which it had major financial commitments. At a meeting of the participating States, held in 1950, it was decided to set up a Control Board in order to complete the project as early as possible and with maximum efficiency and economy. The Board was to exercise overall control over the project, including all technical and financial aspects. Subsequently, in 1952, the Hirakud Dam Projects was set up closely followed by other Control Boards. The position to-day seems to be that the Central Government not only advises the state governments but may even insist on their seeting up Control Boards for management of river-valley investments. Control Boards are set up by resolutions of the Government.

Management by Control Boards: A Control Board generally includes representatives of the state government concerned, the Central Government and Project Chief Engineer. The Chief Minister or the Minister-in-charge of the department is invariably present on the board, the Chief Minister being also the Chairman of the board; representatives of the Central Government generally represent the Ministry of Irrigation and Power, the Ministry of Finance, and the Centrrl Water and Power Commission

Control Boards have set up committees of the official members of the Boards to take decisions in case of emergencies. They may be empowered to clear those items on which agreement can be easily reached. Only policy items and those on which the members are unable to agree, go up to the Control Board. The board is kept informed of the activities of the project by means of a general review note, which also serves as a follow up.

Advantages of Control Boards:

(1) It provides a means for direct participation of the Central and State Governments.

(2) Being a high level body, it facilitates quick decisions.

(3) It can provide superior overall direction and control over the project, before, during and after construction.

Limitations of Control Boards:

(1) As the Boards are not statutory but administrative agencies created under the executive authority of the Government, they can function only in an advisory capacity. Decissions of the Boards are, therefore, in the nature of advice to the Governments concerned who must issue formal orders before they can be executed.

(2) A great weakness of this arrangement is that though the board exercises functions of control, it is not legally accountable for its acts of commission and omission, as it is an advisory body only.

(3) The large sums of money granted to these boards by the Central Government are shown as loans to the state governments. As a result, the beneficial effects of having to account for before the Public Accounts Committee have been lacking.

(4) In some cases, even the benefit of having the advice of controlling body has been vitiated by development of certain practices. It was found, for example, that certain proposals had been screened by the relative departments of the state governments, before they came up for consideration before the board.

(5) Central Boards have not been able to work with promptness where more than one state is associated with the project. This is because ratification of the decisions of the Board by the several state governments takes time.

D. *Government Companies* :

The Government Company from of public enterprise management is a unique feature in India, with no parallel elsewhere.

This type of organisation of a public enterprise, is the company form, governed by the Companies Act 1956, as modified from time to time, viz. a Government Company. It owns a majority of Share-Capital in an organisation registered as a Private Limited Company and is the most common type of organisational from for a public enterprise A large number of such companie are operating in the manufacture of basic materials, petroleum, chemicals and pharmaceuticals, heavy, medium and light engineering, transportation equipment, consumer goods, agro-based enterprises, as well as in trading and services such as internal and external trade, transportation, contract and construction, industrial development and consultancy, tourism, financial services and rehabilitation of sick industries.

Merits for the Company Form of Organisation :

(1) It provides for a great deal of flexibility and freedom of action in management. In certain specific ways, it releases the management from the maze of prescribed government procedures, such as, selection of personnel through Public Service Commission, purchase of equipment and materials through Director General of Supplies and Disposals, all constructions through Central Public Works Department, and expenditure according to departmental procedures, A Company has freedom to recruit, to buy and sell, to build and generally to carry on commercial transactions, in accordance with approved procedures of its own.

(2) The company, being a separate commercial entity, enables the management to adopt and adhere to sound commercial practices. For example, it helps a management, with a capital structure of several hundred crores of rupees, to avoid taking about eighteen months to buy four stop-watches.

(3) The company form provides, in a way that no other form is able to do for the association of non-officials, with managerial function and responsibiltty ; not simply taking their advice or consulting them, or just putting them on the boards, but involving them with the management of an enterprise. In fact, association of non-official (when there is no conflict to interests) as full-time or part-time directors, enables a cross-fertilisation of experience and knowledge, not only during the early period of entry by the state in the field of commercial and industrial entrepreneurship, but all throughout.

(4) The company form enables, legally, to foster large formal delegation of functions and assignment of resources.

(5) The discipline of the company law is a good thing for management. It is a statutory discipline direcctly imposed by law. It is a more embracing discipline than that is normally applicable to an average government servant Through is numerous provisions, the Companies Act prescribes various codes of conduct, breach of any of which exposes a director a minister or a secretary to a government, or a non-official, or a company employee to penal action under the law, and not merely to departmental or disciplinary action.

Boards of Management of Government Companies :

According to the Companies Act, 1956, the directors of a limited company public or private—are elected by its shareholders In government companies, registered as private limited companies, the President of the Indian Republic, however, nominates the members of the Board of Management ; their number varies. Generally, the Minister of the ministry concerned is nominated as the Chairman, the secretary of the Department as the managing director and representatives of Finance and other relevent Ministries as other members of the board. Occasionally, a few outsiders, such as a Member of Parliament, a Trade Union leader, etc, are appointed as part-time members. It is the Board who is the ultimate authority and is responsible for efficient management of the affairs of the company.

The board is vested with the authority to appoint executives and operating managers to carry on day-to day affairs.

Parliamentary Control

In the case of a private limited company in the private sector, ultimate control is exercised by the shareholders, whose number is limited to fifty. In

practice the actual number is much smaller and, therefore, a few share-holders who risk their capital, take all important decisions themselves and control the affairs of the company. In the case of a government (private) company, it is not, however, the President of India's own money that is invested in the company, nor is this the only company of which he is the shareholder ; there are many such government companies ; and being the President, he has so many constitutional duties to perform that he cannot have much time to direct and control the activities of these companies. The Parliament has, therefore, been vested with the authority for direction and control of the government companies. It is with the money of the people that these companies are operated and, therefore, the Parliament, which consists of elected representatives of the people, must have the ultimate authority to exercise control on their behalf.

Method of Parliamentary Control : There are several methods by which Parliament can exercise this control. First, by holdin debates in the Parliament. Secondly, by interpellations of the Minister during the Question Hour when the Parliament is in session. Thirdly, by the special committees of the Parliament, such as the Public Accounts Committee, the Estimates Committee, and the Committee on Public Undertakings.

And in general, there is the Budget session which is related to the government's revenue and expenditure. The cabinet which, consists of the Council of Ministers and the Prime Minister, is accountable to the Parliament both collectively and individually. After a Finance Minister presents the budget on behalf of the Government, each minister presents on the floor of the House, the demands relating to his ministry. The minister, when presenting his own budget. demands and asking Parliament to vote them, must listen to, answer and take careful note of, all criticisms on the working of his ministry. Thus, in a direct way, Parliament surpervises the working and the conduct of executives.

Question Hour : This is a common method by which a matter can be raised in Parliament in putting questions to the minister During the Parliamentary session, the first hour of every day's session is devoted to questions and answers. Besides the questions originally asked, members may also ask supplementry questions. It is through such questions that a member can expose the failures and errors of a minister. In the past, some of the cases which finally ended up in a crisis, sometimes involving the resignation of a minister, started with a question asked in the Parliament by a back-bencher with, however, an absolute majority in the Parliament for the ruling party, and no strong opposition, this method becomes ineffective.

Committees of the Parliament : **The third method of control is through the Estimates Committee, the Public Accounts Committee (PAC) and the Committee of Public Undertakinhs. The Estimates Committee hay very wide terms** of reference, **enabling it to get into the working of government concerns in great** detail. The PAC has the advantage of having at its disposal, not only the audit report as a starting point, but also the expert services of the Comptroller and Auditor General His reports contain the results of the audit of government accounts including that of government undertakings. and they form the basis of the enquiry and examination, by the PAC, of the ways in which the executives has handled and accounted for public funds, provided for in the budget as passed by the Parliament.

Both these Committees call before themselves senior officers of the ministry concerned as witnesses. The practice has grown of calling also top managers of the particular undertakings which are being examined and also the Chairman. It is the duty of these witnesses to answer questions and explain any failures in adhering to the established policies.

Parliamentary Committee on Public Uudertaking : (C.P U) In India, a Committee was constituted in 1958, "to consider problems relating to state-owned corporations and companies, to suggest how a broad supervision may be maintained by the Parliament without interference in the day-to-day activities of the concerns". This Committee came to the conclusion that the existing methods of Parliamentary control over public undertaking were inadequate and its Report emphasized the need to establish a separate committees to deal with public undertakings which would replace the other two Committees in this respect. Many reasons were given in support of this proposal : First, Parliament, as a whole, cannot exercise control and supervision over so many undertakings except in a cursory manner. Secondly, the information at its disposal regarging the working of these undertakings is inadequate to facilitate constructive criticism regarding their management and administration. Thirdly, questions and debates on the floor of Parliament are not suitable tools for exercising control, as very often, they tend to be based on partisan or uniformed critism. Fourthly, the Estimates Committee and the PAC were already over-burdended with work and could not be expected to pay adequate attention to the growing number of public undertakings in an effective way. Fifthly, there was a need for a committee of this type to provide Parliament with factual information and to draw its attention to matters of policy and general administration rather than the day-to-day workings.

In 1961, government accordingly announced its decision to set up the Committee on Public Undertakings (CPU).

The Principal tasks of the C.P.U, which took over the function of the PAC for public undertakings, are :

(1) To examine the reports and accounts of the public undertakings.

(2) To examine the reports of the Comptroller and Auditor General on the public undertakings.

(3) To examine, in the context of autonomy and efficiency of the public undertakings, whether their affairs are being managed in accordance with business principles and prudent commercial practices.

The Committee, is however, precluded from examining (i) matters of major government policies as distinct from the business and commercial functions of these undertakings, and (ii) their day-to- day administration.

Since its inception in 1964 the PUC has investigated a large number of public enterprises and has brought out many reports. Practically, every kind of enterprise has been covered and the Committee has given special attention to broader questions of management in so far as they apply to all public enterprises. They include the problems of financial management, general management, materials management, production management, personnel policies, public relations and publicity, foreign collaboration etc. These reports provide, at one convenient point, fruits of critical and constructive-examination, in terms of established government policies and of the vast experience that has already been gained in public enterprise management. It should prove very useful to new public enterprises which may be set up in the coming years.

III

ACHIEVEMENTS OF THE PUBLIC SECTOR

During the period of its existance, the public sector in India has covered large areas of economic activity and has strengthened its position in crucial segments of the economy of the country. It was assigned a very important role of occupying strategic heights of the economy in order to ensure a steady and balanced growth. Public enterprises have served as a powerful instrument of bringing about socio economic transformation of the country, such as the following :

1) *Diversified and Sustained Growth.* Public undertakings have been set up in all branches of economic activity and, as such, they have triggered growth in all areas. The bulk of the investment in these undertaking is conerntrated on infra-structure and on basic and key industries, where multiplier effect is more significant than a direct contribution.

2) *Increasing Employment Opportunities.* Expansion of public sector has witnessed considerable expansion in employment togethet with corresponding increase of salaries, wages, bonus and other related benefits to the employees.

3) *Model Employer.* Management of public undertakings have set examples in matters of better conditions of work in factories, having facilities and social amenities like schools, hospitals, shopping centres, recreational centres, transport facilities etc. As a result, it is claimed that the number of man-days lost on account of work-to-rules, go-slow and strikes have been reduced considerably.

4) *Reduction in Regional Imbalances* One of the objectives of the country's industrial policy has been to bring about decentralisation of industry, by encouraging the establishment of industries in backward, underdeveloped areas in the country. This is necessary to reduce regional imbalances and to provide opportunities for industrial development and employment in such areas. It was with this aim in view that steel plants were set up in Bhilai, Durgapur, Rourkela, Bokaro, fertiliser factories in Bihar, Orissa, Assam, U.P , Kerala, Tamil Nadu, and a number of public enterprises in Bangalore and Karnataka.

5) *Check to Concentration of Economic Power.* The share of the public sector in the productive wealth of the country has increased considerably. The public sector has come to occupy a commanding position in many industries such as steel, non-ferrous metals, metallurgical equipment, heavy engineering, fertilizers, pharmaceuticals & chemicals. As a result of the massive investment made in the public sector, the share of the private sector in the overall industrial production of the country has declined. Thus, the growth

of the public sector has prevented further concentration of economic power in the hands of a few.

6) ***Contribution to the Country's Exchequer.*** **The public sector has played a significant role in resource-mobilisation for economic development.**

7) ***Generation of Internal Resources.*** **In addition to the above, public undertakings generated internal resources by way of accumulated reserves.**

8) ***Foreign Exchange Earnings.*** **Because of continuous increase in imports of vital machines and inventories and raise in the price of oil, our foreign exchange reserves are fast declining. Public sector undertakings have helped to conserve our valuable foreign exchange reserves, to some extent, by exporting their products to a number of foreign countries.**

9) *Import Substitution.* A number of public sector undertakings are manufacturing products which would otherwise have been imported. Some of them achieved significant success in their efforts towards import subsitution, and consequently savings in foreign exchanges. Such savings have been also achieved by use of indigeneous machinery, materials and components, thereby, reducing our dependence on foreign sources.

10) *Development of Ancillary Industries.*

Ancillary industries, apart from improving the strength of small-scale sector, establish a complementary economic relationship between the large-scale and the smale-scale industry, which is vital for rapid industrial development. They also help to provide gainful employment to relatively large number of persons. Managements of public undertakings have recognised their importance and have been helping the establishment of such units by offering various facilities in this direction

Performance and Profitability: The foregoing would make it clear that the public sector has definitely stimulated growth of industries in the country. There is no doubt that if the public sector had not been launched whatever all round industrial growth we are witnessing to-day, would not have been possible. public enterprises seem to have overcome the various initial constraints and there is a marked rise in tempo, production and turnover of the major public sector units.

Capacity Utilisation: Despite these achievements, actual production in most of these units has been very much behind the targets. Regretfully, most of these units have been operating much below their installed capacities. The low capacity utilisation is due to a variety of factors, such as, delay in receipt of materials and components, non-availability of requisite power, accidents and abnormal break-downs, want of maintenance. lack of orders, bad industrial relations, lack of managerial talent, technological problems etc. many of which can be defivitely attributed to gross managerial deficiencies.

Profitability : A great many of the public undertakings, set up for social objectives, have been in operation for a good many years, and the relevance of evaluating their performance with reference to their Profit and Loss Accounts and Balance Sheets, has, assumed great importance. There are reasons for this ; one is that they utilise a very large proportion of the nation's resources and so it is essential that they should run efficiency and contribute to the growth of the economy and welfare of the community, and this is not possible unless they generate adequate surplus or profits. The second reason is that while estimating the resources available for development under the Plans, the Planning Commission provides for substantial contributions from the public undertakings ; however, their actual contributions have been far less and this has been one of the causes of continuing deficit on this account And lastly, it is nobody's case that simply because a Unit is a Public Undertaking, it need not run efficiently and generate profits, or incur losses, year after year.

Average rate of return on capital employed has consistently been a dismal figure, and of course, mucn lower than what their counterparts in the private sector have been earning all these years.

However, there appears to be a ray of hope. It was reportedly announced by the Hon'ble Minister of Finance, in May '82, at the inaugural session of Co-ordination Committee on production and productivity in pulic enterprises, that the public sector made a net profit of Rs. 400 crores in 1981-82, there by reversing the trend of continuing losses for four years ; and as a percentage of capital employed, the relative gross profit increased, from 7.8% to 11.6% in 1981-82.

IV

SOME CAUSES OF UNSATISFACTORY PERFORMANCE

Development of the public sector was undertaken not only for achieving rapid and balanced economic growth but also for providing social justice. Thus, the public sector has dual objectives, economic and social. Expectations of the public consumers, employees, localcommunity, tax-payers and the nation, are high. Consumers or users expect quality products at reasonable prices, with uninterrupted supply ; employees expect a feeling of involvement and participation in management, in addition to fair wages and reasonable conditions of work ; the local community expects the unit to be an asset rather than a nuisance ; tax-payers expect that will make substantial contribution to the nation's resources for further development and thereby, reduce the need for additional taxation or dificit financing ; and the nation expects that they will add to the country's all-round economic growth. Unfortunately most of the public undertakings have not been able to satisfy these expectations. And yet, the Government of India has remainde committed to the philosophy of state-ownership and management of public undertakings, a large number of which are private limited companies.

Management of Public Undertakings : In the ultimate analysis, efficiency of an organisation depends on the efficiency of its managements.

A typical board of management consists of a Chairman, a Managing Director, five to seven functional members and a General Manager. The power of appointment to these posts vests with the government. Chairman of the Board is often the Secretary of the controlling ministry and has considerable powers. Generally, he is also the Chairman of other companies set up by his normal official duties as the secretary of his ministry, He cannot, therefore, devote sufficient time to attend to the problems of individual enterprises. Recently, the government has started appointing non-officials as Chairman but here the choices, by and large, have not been very happy.

The Board of Management is responsible for appointment of principal officers, for formulation of policies and for guiding and motivating officers and men to achieve the objectives and goals of the undertaking. At present, boards of many of the undertakings consist of senior civil servants and retired defence personnel, In some cases, non-officials, i.e., M P.s, M.L A.s. and labour leaders are also appointed as members of the Boards. These non-officials are considered as 'safe men' belonging to the party in power and are not likely to take an independent line of action. The representative of the Finance Ministry has some sort of a 'Veto' on the remaining members.

Middle Level Managers : In late sixties, the Government constituted an Industrial Management Pool to recruit, from outside, personnel for senior

managerial positions in non-technical departments like general management, finance, accounts, sales, purchase, transportation, personnel etc. However, on account of stagnancy in the Industrial Management Pool, the government continued to send Civil Servants. on deputation, to public enterprises. As a result, public enterprises have come to be managed largely by civil servants.

Management by Civil Servants : Members of the civil service are not necessarily committed to the philosophy of state-ownership and management. They go to public undertakings, not out of zeal to make a success, but perhaps, only to bide their time until they get promotions or postings aboard. As a result, many posts remain vacant for long periods. For example, as of August 1981, there were as many as 71 posts vacant-18 Posts of Chairmen-cum-managing Directors, and 53 posts of full-time members of boards. The resulting consequences on the efficiency of management need not be elaborated.

Further, civil servants, being at the mercy of the Minister and the Secretary for their initial appointment and later continuation, have not been able to take an independent view as regards strategies and policies. Being steeped in bureucratic methods of thinking and working, they have not developed a board vision and creative abilities. In short, civil servants are generally excessively cautious, lack administrative vitality, have a tendency to delay decisions, and go by precedents. It is no wonder that the efficiency of the enterprises, they manage, is low.

Civil Servants as Operating Managers : Not only members of the boards but middle-managers of public enterprise have also been civil servants. As such, they do not necessarily have the technical back-ground nor the practical experience of working in industry. Nor do they spend enough time to study the problems of the enterprise concerned ; for, being deputationists waiting for transfers on promotin, they leave the enterprise at the first opportunity. As a result, many managerial posts remain vacant for long stretches and there is a general fall in the standard of efficiency of these organisations.

Attitude of Managers of Public Enterprises : Managers of public undertakings, being Civil Servants and having worked in civil administration, develop an authoritarian attitude towards the staff and the rank and file of workers. They are accustomed to prompt obedience and are often reluctant to entertain good ideas and suggestions from their subordinates. They regard comments of subordinates as criticism, their trivial complaints or grievances, and their minor demands as indiscipline or insubordination There have been cases. when grievances, same often legitimate, were left unattended to for a long time ; and when workers presented their charter of demands, it was unceremoniosly rejected, but was finally conceded when workers went on

strike. Managers with such a lack of sensitivity and uudemocratic attitude, cannot give effective leadership to their men, can not create a sense of belonging and nor can inspire them to achieve better results through team work.

Parliamentary Control through Accountability : Public enterprises are accountable to the Parliament through a Minister, who is responsible for formulating policies, appointing or removing members of boards of management, giving general guidance and directives on matters of policies, and for periodical reporting to the Parliament, about the performance of the undertakings.

The object of Accountability is to satisfy the government, the Parliament and through them the people, that public enterprises are being run efficiently and in the interest of the public. The concept of accountability also aims at preventing consumers from being exploited by public undertakings because of their monopolistic position ; it is also meant to ensure harmonious management-labour relations to avoid large-scale stoppage of work owing to industrial disputes. How far, however, these objects are realised, is another matter.

Autonomy in Day-to-Day Management : It is an accepted principle that, if a public enterprise is to function efficiently, its management must have autonomy in day-to-day administration. It must necessarily have discretion to be flexible, to adjust actions to changing conditions within the limits laid down by the Parliament.

Interference by Ministers and Secretaries :

Experience of the management of public enterprises in India, however, has been that Ministers have not always been content with giving directions on matters of policy, and that they have frequently interfered in such administrative matters as selection and promotion of officers, granting contracts, distribution rights etc. ; and instructions in these matters are never in writing Unfortunately, the Chairman and the members of the board do not insist on such instructions in writing, nor do they show their independence and exercise their autonomy in taking correct actions. However, when actions of the management are criticised in the Parliament, the Minister usually states that these are matters of details (and not policy) for which the Board and not the Minister is responsible. In short, autonomy of pnblic enterprises has, in many cases, been sacrificed by Ministers in the name of accountability to Parliament but in fact, in narrow selfish interests of for political considerations. The result is that morale of managers has been adversely affected and they have lost enthusiasm and interest in their work.

In the name of Public Accountability, members of Parliament ask for all sorts of information and criticize (not always constructively), acts of commission and omission of managements of public enterprises. And again, Managers of public enterprises. can hardly take any important decisions without the consent of the Minister or his Secretary and cannot ignore the directives thrust on them, because of the risk of their services being terminated. It appears that, on account of too much interference and unnecessary control by the Parliament, Ministers and Secretaries, in various forms, public enterprises have been reduced to the status of government departments and managers of these enterprises have little freedom of action which is so very essential for efficient working.

Lack of Professional Managerial Skills. Till recently, managers in charge of various functional areas, such as; production, purchase, sales, personnel, research and development etc. were from the civil or defence services and did nor necessarily have the professional qnalifications or experience of managing such activities in industrial enterprises. This lack of professional management is apparent in almost all aspects of the working of public enterprises.

Inefficient Project Management. Project management includes preparation of a project and its implementation. In this respect, right from the beginning, feasibility reports of many projects were later found to be highly deficient and their implementation had taken far more time than was estimated initially. This invariably resulted in substantial increase in cost of construction and loss of production which otherwise, would have been available if the project were completed in time. And, it is not clear whether any lessons have been learnt, from the past in this respect. The Economic Times of 7th October 1981 reportedly stated in its editorial that "The Rs. 165 Crores Salem Steel Plant will make a loss of Rs 86 Crores annually and thus will wipe off its entire capital in less than two years ! The plant is inherently non-viable ; Improvement in capacity utilisation and productivity improvements that take place once the initial problems of a new plant have been overcome, will not be sufficient to get the plant out of red throughout its life".

Inefficient Material and Inventory Management. Materials and Inventories seem to be significant area, and the most profitable at that, for cost reduction. They have the advantage of being non-human and thus fully amenable to controls. Managemenf of public enterprises have consistantly neglected this area. They had inventories of Rs. 1840, Rs. 2518 and Rs. 3269 crores in 1972-73, 73-74 and 74-75 respectively. These represented the

equivalent of 4.4 months of production costs for 1972-73. 4 3 months for 1973-74 and 3.9 months for 1974-75 and were more than their working capital for the three years. Undertakings in the private sector have been able to manage with less than half of these inventories.

Inefficient Personnel Management : Human resources are the most productive of all resources at the disposal of an enterprise and its success largely depends upon the efficient management of personnel In this respect also, public enterpriss managements have been found to be deficient. In a number of these undertaking, well organised and adequately-staffed personnel departments have not been established. As a result, "the right man for the right job" is an exeeption rather than the rule. There is over-staffing in a number of enterprises ; training facilities are inadequate ; there is no systematic marit-rating for promotions ; there is no clear-cut transfer policy ; and there is lack of communication between employees and managers at different levels. Provisions of the Factories Act and the Labour Laws, which provide only for the minimum requirements, have been often disregarded , lapses like inadequate satety-measures, ill-equipped first aid boxes, unsatisfactory conditions of conservancy, creches and canteens, and irregularities under Factories Act , Payment of Wages Act, Provident Funds Act, Employees State Insuarance Act etc have been very common. In many cases, attitude of managers towards employees is such that there is no desire to understand their problems and difficulties no desire to practise 'Theory Y' approach and to inspire subordinates for higher performancec. No serious efforts seem to have been made to work successfully programmes of worker-participation, even the shop-floor The result of all this is reflected in the large number of man-days lost due to strikes, go-slows etc.

Inefficient Maintenance Management.

Maintenance, to be effective, has to be on scientific lines, systematically planned and rigorously implemented. It is regretted that in many public sector undertakings, this is conspicuous by its absence.

Lack of Efficient Budgeting and Cost Control Techniques.

Absence of efficient accounting system in many public undertakings has resulted in inadequate budgeting, ineffective control over costs and insufficient use of essential data for formulating policies. Most of these undertakings do not follow Standard accounting principles and practices. They still lack cost-consciousness at all levels, and have not adopted modern method and

tools of cost-control, which are vital for efficient running of an industrial enterprise. And Public enterprises, with a few exceptions, have not introduced any worth-while integrated cost-reduction schemes.

Modern budgeting occupies an important role in the control system. Budgetary procedures adopted in many public enterprises follow antiquated, traditional patterns. They doubtlessly serve as a basis for obtaining funds and for similar purposes, but not as a potent instruments for controlling costs ; nor do they serve other vital management objectives.

General lack of modern management techniques :

It may be a great surprise for many to known that hardly any serious attempts have been made to introduce modern management techniques in most of the public-sector enterprises.

V

SOME SUGGESTIONS FOR IMPROVEMENT

Having indicated the more serious causes for unsatisfactory performance of public enterprises, it is necessary to suggest measures to remove these causes, and to improve their efficiency. The more important of these measures are :

Composition of Boards of Management : Experience has show that with the Secretary of a Ministry as Chairman, makes it difficult for the board to take initiative for bold and imaginative decisions. The government should take a policy-decision to appoint top-level men from industry, who have wide managerial experience, as Chairmen of boards, for a period of three to five years, and not to remove them arbitrarily and abruptly ; and extension of their tenure to depend, in appropriate cases, on their integrity, dedication, merit and efficiency.

The Public Enterprises Selection Board (PESB), set up sometime ago had been entrusted with selection of Chairmen and Managing Directors. For selection of full-time Executives/Functional Members, a selection committee may be set up with the Chairman/Chief Executive/Managing Director of the enterprise, a representative of the PESB and one or two expert members. This committee should recommend persons with managerial experience and appropriate quality. It should also consider names of competent and successful executives from the particular enterprise and other public enterprise for appointment to these posts, as chances of such promotion would definitely stimulate these executives to improve their performance.

Appointment of Middle-level Managers ; The Government would do well to stop the common practice of appointing members of the Civil Service on deputation, as managers to the public enterprises, and start recruiting professionally qualified young men such as Engineers, Managers, Accountants Chartered Accountants, MBAs etc. for Junior managerial positions. It should set up an Indian Management Service (IMS) which might well be administered along similar lines as the U.P.S C.

Permanant arrangements should also be made for intensive practical training programmes, for varying periods, for candidates selected for the I.M S. This will ensure a continuous flow of qualified and trained personnel for middlelevel positions and thus prevent managerial positions remaining vacant, for long periods, as it has occurred so often in the past.

Autonomy to the Boards of Management : It is well-known that in the name of public accountability, boards are often reduced to the status of a government department. As a result, many of the evils of bureaucracy have entered into the system. If this is to be prevented, the Parliament and then

the Ministers must voluntarily accept a 'Principle of self-denial', in the exercise of their authority. Members of Parliament should restrict themselves checking whether the public enterises are implementing the policies laid down whether the enterprises are acting in the interest of the people or whether the performance of the managements is on the desired lines ; and their criticisms, on the floor of the House, should be constructive.

The Minister who is responsible to the Parliament, has a right to give directives, guide-lines and instructions on matters of policy to the Chairman of the Boards, but the should confine himself largely to such matters only ; and when he thinks it necessary to give decisions or instructions on specific matters, he should give them in writing, so that he, and not the management, may be held responsible for the consequences.

Responsibility of the Boards: Given the necessary autonomy, the Boards should be given clear, quantitatively measurable goals,— goals which are not consistent with each other, and then they should be held responsible for achieving these goals. Consistently good performance should be rewarded by promotion within the enterprise or to other public enterprises : and in the matter of promotion, political or extraneous considerations should be strictly kept aside.

Adoption of Modern Techniques of Management: Managers in the private sector have been increasingly using the latest technique for improving their operating efficiency. There is no reason why managers in public enterprises should not use them. This has perhaps not been possible so far, because having worked in government departments, they had not been familiar with these techniques nor had they practical experience in applying them Once young, qualified men are recruited to managerial positions, and given the necessary practical training, and the freedom of action, they would be able to apply these techniques, which are vital in management practices at the present time.

Having noted some of the measures for improving the efficiency of public enterprises, a short summary of the more important of these, is given below :

1. The Government should take a firm decision that politicians or secretaries of Ministries will not be appointed as Chairmen or Managing Directors of Boards of Management of public enteprirses.

2. Similarly, Civil Servants would not be appointed as members of these boards, unless they are also, otherwise, qualified.

3. The Boards should be granted financial and administrative autonomy and should be allowed to exercise it in deciding day-to-day matters.

4. Ministers should confine themselves to giving guidance and direction only on matters of policy and allow the boards to use their independent judgement in implementing the policies.

5. The boards should have clear objectives and quantitative goals-profit, public welfare etc.—in measurable terms, and should be held responsible for their performance.

6. Ministers should wherever justified, protect the boards from criticism by Members of Parliament about administrative actions.

7. Only professionally qualified, suitably experienced and competent persons should be appointed as members of the Boards. Further, representatives of labour, consumers/users and other intrests may be appointed as part-time members, as demanded by circumstances.

8. Members of the boards should be exharted to imbibe democratic values and to adopt democratic and participative approach in dealing with managers and employees.

9. Managers should be trained to systematically adopt modern management techniques with the object of reducing costs and improving productivity.

10. Promotion within or to other Public enterprises should be strictly on the basis of efficient performance, competence and merit.

Epilogue :

Professor Paul Haenni, during a visit to India on behalf of Internotional Management Academy (set up by International Committee for Scientific Management), observed on management of Public Sector Industries in India "The remedy is to give the undertakings complete autonomy and also to ensure that there is continuity of Managers".

It may be added that the other component of the remedy (having fulfilled the first), is simultaneous enforcement of complete accountability.

STUDY NOT : 8[illegible]

SELF-EXAMINATION QUESTIONS

(Answers to these Questions are NOT to be submitted)

1. Explain why the Government of India has committed itself firmly to the policy of the growth of the Public sector.

2. "The Public Corporation was regarded at one time, as the ideal form of organisation for public enterprises". Discuss critically ; do you agree ?

3. Why has the Government of India shown marked preference for the Private Limited Company form for the management of Public enterprises ?

4 Review critically achievements of public undertakings, in India.

5. Do you consider the performance of public enterprises satisfactory ? Give reasons. Suggest measures to improve their performance in future.

6. Examine critically the methods of Parliamentary control over public enterprises.

7. Write notes on thetfollowings :

   (1) Policy Boards, 2) Functional Boards, (3) Mixed Boards,
   (4) Control Boards, (5) Autonomy and Public Accountability.

8. Discuss critically differences in purpose, approach etc, between a public undertaking and a private enterprise.

9. Write a critical note on accountability system of public undertakings.

10. Discuss the organisation of public undertakings. Critically comment on their merits and limitations.